



Mitsui Sumitomo Insurance Company (Europe), Limited

Solvency and Financial Condition Report

for the Year Ending 31 December 2020





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Directors' Responsibility Statement

We acknowledge our responsibility for preparing Mitsui Sumitomo Insurance Company (Europe), Limited's Solvency and Financial Condition Report in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

- a) throughout the financial year in question, Mitsui Sumitomo Insurance Company (Europe), Limited has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations applicable to Mitsui Sumitomo Insurance Company (Europe), Limited, and
- b) it is reasonable to believe that Mitsui Sumitomo Insurance Company (Europe), Limited has continued so to comply subsequently and will continue so to comply in future.

For and on behalf of the Board of Mitsui Sumitomo Insurance Company (Europe), Limited.

Robin Adam
Chief Executive Officer

Andrew Slater
Chief Financial Officer

8 April 2021



Executive Summary

Business and Performance Summary

During 2020 the business of Mitsui Sumitomo Insurance Company (Europe) Limited (the “Company”) continued to comprise the provision of insurance services to Japanese clients located in the United Kingdom, European Union, Africa and Russia, and its participation in the aviation underwriting pool managed by Global Aerospace Underwriting Managers Limited (“the GAUM UK pool”). In 2019 this business was supplemented by the provision of insurance services to non-Japanese clients located in Russia and other countries within the Commonwealth of Independent States (“CIS”). In 2020 the business was further supplemented by two new delegated underwriting authorities providing insurance services to non-Japanese clients primarily in the UK and USA. On 1 January 2020 the Company became a member of the aviation underwriting pool (“the GAUM US pool”) managed by Global Aerospace, Inc. (a subsidiary company of Global Aerospace Underwriting Managers Limited incorporated in Delaware in the United States of America). The GAUM US pool underwrites risks primarily located in the USA. The majority of the premium and insurance risks derived from Japanese clients and all of the premium derived from the GAUM pools and non-Japanese clients is ceded to reinsurers in return for reinsurance commission.

All of the Company’s business is conducted from its office in the UK or by staff working from their homes in the UK. The agents to which the Company has delegated underwriting authority conduct their business from offices in the UK and USA.

The Company’s material lines of business are the provision of non-life insurance services for the following types of commercial risk:

- Marine, aviation and transport risks
- Fire and other damage to property risks
- General liability insurance risks

The purpose of the Company is to contribute to the development of Japanese clients and support key business partners by enabling safety and peace of mind through the global insurance business.

The downward effects on gross written premium caused by reductions in UK and global trade due to the Covid-19 pandemic were largely offset by increases in premium rates, leaving gross written premium on a like-for-like basis largely unchanged. After taking account of amounts recoverable from reinsurers, increases in claim reserves for potential liabilities arising from the Covid-19 pandemic have been offset by the continuing relatively benign trend in claims experience from other causes with the level of attritional claim activity remaining low.

The fall in the Bank of England base rate following the outbreak of the Covid-19 pandemic has reduced the yield from the Company’s holdings in market risk-free investment assets, although this has been partially offset by investment from the first quarter of 2020 in a fund, regulated under the Undertakings for the Collective Investment in Transferable Securities (“UCITS”) regulatory framework, which has exposure to market risk.

The Company has lost its licence to undertake business in the European Union (“EU”) following the United Kingdom’s departure from the EU. In anticipation the Company had taken steps for its Japanese clients’ risks located in the EU and European Economic Area (“EEA”) to be underwritten by other group companies based in other EU countries such that the overall gross written premium from this business is largely unaffected. Those risks located in the EU and EEA previously underwritten by the GAUM UK pool are now underwritten by a pool of companies based in EU countries and hence the associated gross written premium has been lost.



The Company's results in 2020 and 2019 are summarised in the following table:

Profit or Loss account	2020	2019
	£k	£k
Gross Written Premium	111,582	80,482
Net Earned Premium	3,158	3,545
Net Claims Incurred	(820)	(1,035)
Reinsurance Commission Income net of Gross Commission	8,239	6,500
Technical Expenses	(324)	(118)
Operational Expenses	(7,729)	(9,028)
Underwriting Profit/(Loss)	2,524	(136)
Investment return	937	1,119
Foreign exchange gain / (loss)	100	(23)
Other Expenses	(4)	-
Profit before tax	3,557	960
Tax credit / (charge)	87	(10)
Profit after tax	3,644	950

Statement of Comprehensive Income	2020	2019
	£k	£k
Profit after tax	3,644	950
Currency translation differences	(3)	(8)
Total Comprehensive Income	3,641	942

<i>Net Claims ratio</i>	26%	29%
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The new delegated underwriting authorities commenced in 2020 are primarily responsible for the increase in gross written premium. These have been supplemented by additional gross written premium from the Company's new membership of the GAUM US pool, although this was partially offset by a decline in the GAUM UK pool due to the transfer away of business located in the EU and EEA.

All of the business from the new delegated underwriting authorities and from the GAUM pools is ceded to reinsurers, and hence these developments have had no effect on net earned premium which has remained in 2020 at a level consistent with 2019. Reinsurance commission income net of gross commission, being the reinsurance commission receivable less the commission payable for the period of cover within the calendar year, has increased due to the net commission earned from the new delegated underwriting authorities combined with the net commission income from policies written for non-Japanese clients located in Russia and other CIS countries in 2019 but earned in 2020.

In addition to its underwriting activities the Company holds an investment portfolio from which it generates an investment return. At 31 December 2020 this portfolio comprised investments in bank Commercial Paper (classified as corporate bonds), term deposits, a fund regulated under the Undertakings for the Collective Investment in Transferable Securities ("UCITS") regulatory framework, money market funds and current bank accounts.



At 31 December 2020 and 31 December 2019 the fair value of this portfolio by investment type is set out in the following table:

	Fair value at 31 Dec 2020 £k	Fair value at 31 Dec 2019 £k
Corporate bonds	9,975	39,820
Bank term deposits	61,653	58,000
UCITS fund	20,228	-
Money market funds	35,793	10,657
Current bank accounts	3,278	6,717
Total	130,927	115,194

The allocation of funds to the various investment types is set by reference to risk appetites which limit the concentration of deposits or investments with any single counterparty, and ensure minimum levels of creditworthiness and liquidity. The highest level of return is sought within these constraints.

The returns achieved in 2020 and 2019 by investment type are set out in the following tables:

2020	Corporate Bonds	Bank term deposits	UCITS fund	Money market funds	Total
Return (£k)	190	486	228	50	954
Expenses (£k)	(17)	-	-	-	(17)
Net of expenses	174	486	228	50	937
Yield (% of amount invested)	0.9%	0.8%	2.0%	0.1%	0.8%
Expenses (%)	(0.1%)	-	-	-	(0.0%)
Net of expenses	0.9%	0.8%	2.0%	0.1%	0.7%

2019	Corporate Bonds	Bank term deposits	UCITS fund	Money market funds	Total
Return (£k)	340	715	-	84	1,139
Expenses (£k)	(20)	-	-	-	(20)
Net of expenses	320	715	-	84	1,119
Return (% of amount invested)	1.0%	1.1%	-	0.5%	1.0%
Expenses (%)	(0.1%)	-	-	-	(0.0%)
Net of expenses	1.0%	1.1%	-	0.5%	1.0%

The investment return net of expenses in 2020 of 0.7% compares to 1.0% in 2019. The decline is due to the fall in the Bank of England base rate following the outbreak of the Covid-19 pandemic.

System of Governance

Board, committees and organisation structure

The ultimate responsibility and authority over the conduct of all the affairs of the Company rest with its board of directors ("the Board"). Throughout 2020 the Board comprised two independent non-executive directors, one non-executive director employed by a company in the same group, and three executive directors. It is chaired by one of the independent non-executive directors.

The Board has delegated its authority to a number of committees to facilitate and assist in the execution of its responsibilities. The list of these committees is as follows:

- Audit Committee
- Risk and Capital Committee
- Remuneration and Nomination Committee



- Underwriting and Operations Committee
- Finance Committee
- Reserving Committee

Each committee operates in accordance with its own individual Terms of Reference and other relevant policies, frameworks and procedures.

To support the Board and its committees, the Company has also established two types of management meeting, being i) an Executive Directors Meeting, and ii) a Managers Meeting. Both forums also operate in accordance with their own individual Terms of Reference.

The Company's organisation structure is set out in a Management Responsibilities Map which sets out the Company's key functions, a summary of significant responsibilities allocated to the individuals who are responsible for each of these functions, and the reporting lines for each of those individuals. The following have been identified as the Company's key functions:

- Risk Management Function
- Compliance Function
- Internal Audit Function
- Actuarial Function
- Finance Function
- Underwriting Function
- Information Technology Function
- Claims Function
- Reinsurance Function
- Investment Management Function
- Japanese Interests Abroad Marketing Function

The key functions regularly report their activities to the Board and its committees.

Remuneration

The remuneration of all employees is overseen by the Remuneration and Nomination Committee, the membership of which is composed exclusively of Non-Executive Directors, and controlled by the Company's Remuneration Policy. This policy allows the use of fixed, variable and retention pay and is intended to ensure remuneration:

- is aligned to the long-term business strategy, business objectives and risk appetite,
- has appropriate linkage to the Company's and individuals' performance,
- is compliant with relevant PRA and FCA regulation or guidelines,
- supports the Company's aim of attracting, retaining and motivating its employees,
- is affordable considering the Company's overall performance and plans, and
- sets a consistent approach across the organisation.

Fit and Proper policy

All employees who run the Company and its key functions must satisfy the Company's Fit and Proper Policy. To do this they must satisfy the following criteria:

- 1) they must have suitable personal characteristics (including being of good repute and integrity),
- 2) they must possess the appropriate level of competence, knowledge and experience,
- 3) they must have the requisite qualifications,
- 4) they must have undergone or be undergoing all training required to enable such person to perform his or her function effectively in accordance with any regulatory requirements and contribute to sound and prudent management of the Company, and
- 5) they must comply with Conduct standards and rules.

Risk management system, risk reporting, own risk and solvency assessment, and internal control

The Company uses the "three lines of defence" governance model with the aim of ensuring effective risk management. Each line of defence is defined as follows:

1st Line of Defence - Risk Takers and Controllers

Risk takers and controllers comprise the majority of the people employed by the Company. They commit the Company to risk via income generating activities and interaction with existing or potential customers and



clients, or through the development and operation of business infrastructure enabling staff to carry out tasks. There are also employees that help control, assure and reinforce the quality of the activities of the risk takers and controllers. They ensure that the 1st line is taking and managing and controlling the risks they expose the Company to within defined parameters.

2nd Line of defence – Corporate Risk Management

This group comprises the Compliance Function, the Risk Management Function, and the Risk and Capital Committee. These functions do not directly commit the Company to taking any risk. Instead they facilitate the ability of the 1st line to take the appropriate level of risk and effectively manage the exposures the Company faces as a result. The 2nd line of defence provides effective oversight, challenge and reporting of the 1st line's risk-taking activities.

3rd Line of defence – Internal Audit

This consists of the Internal Audit Function which provides independent assurance as to the appropriateness and effectiveness of the Company's system of internal control. The Internal Audit Function is responsible for reviewing and testing all aspects of internal control across the business, including the effectiveness of the Board and committee structure. It reports directly to the Audit Committee, which meets at least four times a year.

Risk Reporting

The Company has a Risk Register containing details of risks, controls and assessment data. The information is tiered to allow for risk to be managed and reported at different levels of granularity. The Risk Management Function produces an Enterprise Wide Risk Exposure Summary report each quarter which is provided to the Board, Risk and Capital Committee, and Underwriting and Operations Committee. The Risk Management Function also provides reports to the Committees on actual performance compared to risk appetite, events and issues arising, and emerging risks.

Own Risk and Solvency Assessment ("ORSA")

The ORSA is a continuous process overseen and supported by the Risk and Capital Committee. It aims to inform management decisions with formal analyses of the risk and capital implications of management decisions. A full ORSA report is produced at least once a year summarising the implications of all key decisions made during the year and incorporating the updated business plan.

Internal control

The Company's internal control system comprises strategies, policies, processes and procedures, backed by systematic measures (such as reviews, audits, and checks) to;

- conduct the Company's business in an orderly and efficient manner,
- safeguard its assets and resources,
- deter and detect errors, fraud and theft,
- ensure accuracy and completeness of its data,
- produce reliable and timely financial and management information, and
- ensure adherence to relevant laws and regulations.

It is summarised in the Internal Control Policy which has five components as follows:

- 1) The control environment (being the general principles necessary for effective internal control)
- 2) The methods for identifying and evaluating risks and their associated controls
- 3) The main control activities (eg. approval processes, and review cycles)
- 4) Information processes and the controls to ensure completeness, accuracy and appropriateness of information
- 5) Monitoring of the effectiveness of controls

Risk Profile

In the course of its operations the Company is exposed to various risks categorised as follows:

Underwriting Risk

Underwriting risk comprises two elements: i) unprofitable future underwriting, and ii) adverse claims development from business already written. The Company purchases significant reinsurance protection to mitigate against both types of risk. The retained underwriting risk (ie. the risk not covered by reinsurance



protection) comes primarily from man-made catastrophes, natural catastrophes and large fire claims affecting property and marine policies, and industrial disease claims affecting liability policies.

The Company has examined its exposure to the Covid-19 pandemic. In the event of claims arising individual policies are examined in detail and legal advice taken as necessary. The Company will fulfil all its obligations as an insurer; however, based on analysis and legal opinions received to date, it is expected that in most instances, losses due to the pandemic are not covered by the Company's policies.

Market Risk

The majority of the Company's investment portfolio has no exposure to investment market risk. The corporate bond portfolio comprises only bank Commercial Paper with a term of no more than a year which will be held to maturity. As such, it is valued at cost plus time apportioned income and is not prone to fluctuate due to movements in wider bond markets. Similarly holdings in money market funds, bank term deposits and operational cash balances are not prone to fluctuation in value due to developments in wider investment markets. From the first quarter of 2020 the Company began investing in a fund regulated under the Undertakings for the Collective Investment in Transferable Securities ("UCITS") regulatory framework with exposure to market risk to achieve a marginal increase in yield. As at 31 December 2020 the value of this investment represented 15% of the total investment portfolio.

The Company regularly monitors the foreign exchange market risk arising from differences in the value of its foreign currency assets and liabilities. Where differences are detected in excess of the tolerances set in the associated risk appetite, they are reduced by executing the necessary foreign exchange trades.

Credit Risk

The Company relies heavily on reinsurance, and as a consequence can recover from its reinsurers a significant proportion of the claims it pays. The Company is thereby exposed to the risk that its reinsurers are either unable to pay due to financial difficulties or unwilling to pay due to a dispute with the Company.

At 31 December 2020 the Company's investment assets were invested in bank Commercial Paper, bank term deposits, a UCITS fund, money market funds and as cash held in current bank accounts. The Company is exposed to risk of default by the counterparties to all of these investment types.

The Company mitigates these credit risks by:

- setting limits on the exposure to individual reinsurers,
- requiring the wording for facultative reinsurance purchased for individual policies to be consistent with the original wording to minimise the potential for dispute,
- imposing minimum credit quality requirements for reinsurers and financial institutions,
- imposing minimum credit quality requirements on the investment portfolio as a whole, and
- setting limits on the amount that can be invested with any one counterparty across all types of investment.

The impact of Covid-19 on the insurance and reinsurance industry and on investment counterparties remains uncertain and will be dependent on the broader macro-economic consequences of the pandemic. If these were to render any of the Company's reinsurers or investment counterparties insolvent this could cause the Company to incur a significant loss due to inability to make reinsurance recoveries or devaluation of investment holdings. This in turn could have a significant effect on the Company's financial position.

Liquidity Risk

The most significant liquidity risk is that the Company may be required to pay a very large individual claim or a very large amount arising from an event following which claims are payable to multiple insured parties such as a natural catastrophe, and having insufficient liquid assets to do so. As noted above, the Company relies heavily on reinsurance. Therefore, it is likely that a proportion of these claim payments would be recoverable from reinsurers.

The Company mitigates liquidity risk by:

- including "cash call clauses" in reinsurance contracts which allow the Company to make recoveries from reinsurers before paying claims to insured parties, and
- maintaining sufficient liquid assets to pay claims.



Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people, or systems, or from external events. The Company considers its most material Operational Risks are key person risk, business disruption, and IT systems failure. Succession plans have been developed to mitigate key person risk. The Company has also developed a business continuity plan to mitigate the risk of business disruption and IT system failure.

With the outbreak of the Covid-19 pandemic and the UK Government's instructions to work from home, the business continuity plan was put into action and has enabled the Company to continue its operations with minimal disruption.

Group Risk

The Company is part of the MS&AD Insurance Group ("MS&AD") and relies upon its parent company, Mitsui Sumitomo Insurance Company Limited ("MSIJ"), to provide capital and other support to meet its strategy. The Company also shares certain services, including IT services, with MS Amlin Corporate Services Limited ("MS ACS"), another group company. Due to these interdependencies the Company could be adversely affected by the following:

- Withdrawal of support by MSIJ
- Lack of MSIJ strategic planning
- A downgrade of MS&AD's credit ratings
- Contagion from the activities and reputation of another MS&AD subsidiary

The Company mitigates these risks by maintaining close communication with MSIJ to ensure the Company's strategy is aligned to group strategy and to ensure MSIJ has a clear and accurate picture of the Company's operations and performance. The Company's management also liaise with MS ACS's management to ensure shared services operate smoothly.

Valuation for Solvency Purposes

All items recorded on the Company's balance sheet (being its assets, Technical Provisions and other liabilities) are valued for solvency purposes in accordance with Solvency II regulations. For most items on the balance sheet these are in line with the valuations used under UK Generally Accepted Accounting Practice ("UK GAAP"). The principal exceptions to this are the Technical Provisions. In accordance with Solvency II regulations the method of calculation differs from UK GAAP insofar as Solvency II requires the Technical Provisions to:

- take account of profits from policies written at the reporting date but the premium from which has not been recognised as earned under UK GAAP,
- take account of profits from policies not yet written or incepted at the reporting date but to which the Company is legally bound,
- take account of all the operational expenses (and not just the claim handling expenses as required under UK GAAP) that would be incurred over the period required to fully discharge the insurance obligations represented by the Technical Provisions,
- take account of Events Not In Data ("ENIDs") such as potential new sources of claims, an example being claims arising from new as yet unidentified diseases,
- exclude any margin above the best estimate of future liabilities that may have been included under UK GAAP,
- take account of the time value of money by discounting the value of the future cashflows represented by the Technical Provisions,
- include a risk margin which represents the cost of transferring the obligations to a third party and is calculated by considering the cost of holding capital to support the run-off of the Technical Provisions over their lifetime,
- include insurance and intermediary receivables that are not past due (such amounts being separately classified under UK GAAP), and
- include reinsurance payables (such amounts being separately classified under UK GAAP).

Standard actuarial methods have been used to calculate the Technical Provisions. Nevertheless they are subject to uncertainty arising from:



- future events
- the settlement of known claims
- delays in reporting claims
- the methodologies and assumptions used to estimate the Technical Provisions

Capital Management

At all times the Company expects to hold a wide margin of Own Funds over its capital requirements, both with regard to its current business and business planned to be written in the future. The Company calculates its Solvency Capital Requirement and Minimum Capital Requirement using the Standard Formula prescribed by the Solvency II regulations.

Total available Own Funds to meet the Company's Solvency Capital Requirement and Minimum Capital Requirement at 31 December 2020 stood at £74,967k (2019: £71,541k). All of these Own Funds are classified as Tier 1 unrestricted Own Funds and therefore all are eligible to meet both capital requirements.

The Solvency Capital Requirement at 31 December 2020 was £45,094k (2019: £38,870k). The ratio of eligible Own Funds to this requirement is 166% (2019: 184%).

The Minimum Capital Requirement at 31 December 2020 was £11,274k (2019: £9,718k). The ratio of eligible Own Funds to this requirement is 665% (2019: 736%).



A. Business and Performance

A.1 Business

Mitsui Sumitomo Insurance Company (Europe), Limited (“the Company”), a private company limited by shares, is incorporated in the UK. The Company’s registered office and business address is:

71 Fenchurch Street
London
EC3M 4BS

Supervisory Authority

The supervisory authority of the Company is the Prudential Regulation Authority (“PRA”). The address of the PRA is:

The Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA

External Auditors

The independent external auditors of the Company are:

KPMG LLP
15 Canada Square
London
E14 5GL

Qualifying holdings and group structure

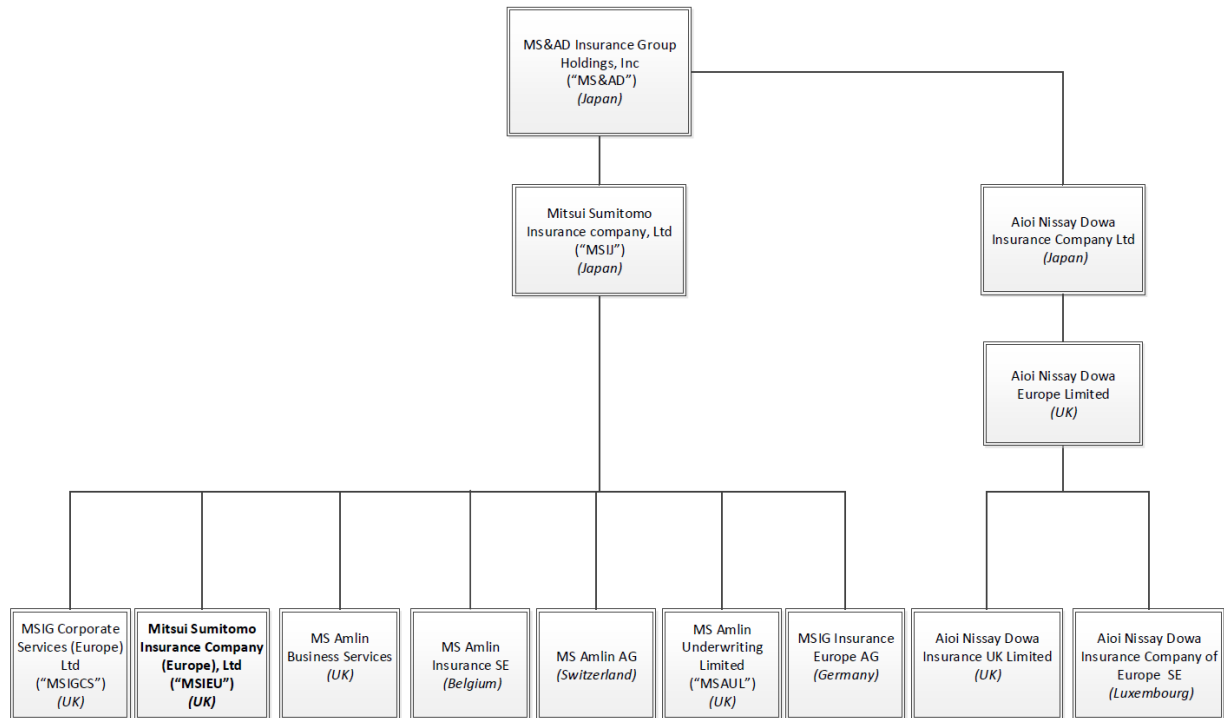
As at 31 December 2020 the entire share capital of the Company was owned by Mitsui Sumitomo Insurance Company Limited (“MSIJ”), a company incorporated in Japan. The ultimate parent of the Company is MS&AD Insurance Group Holdings, Inc., a company incorporated in Japan.

The direct and indirect holders of qualifying holdings in the Company are as follows:

Name of Undertaking	Country	Name of Parent	Amount of shares owned
Mitsui Sumitomo Insurance Company, (Europe) Limited	UK	Mitsui Sumitomo Insurance Company Limited	100%
Mitsui Sumitomo Insurance Company Limited	Japan	MS&AD Insurance Group Holdings, Inc.	100%



The Company's position within the MS&AD Insurance Group ("MS&AD") headed by MS&AD Insurance Group Holdings, Inc, along with the position of other group companies referred to in this report is shown as at 31 March 2021 in the diagram below:



Material lines of business and material geographical areas

During 2020 the Company's business continued to comprise the provision of insurance services to Japanese clients located in the United Kingdom, European Union, Africa and Russia, and its participation in the aviation underwriting pool managed by Global Aerospace Underwriting Managers Limited ("the GAUM UK pool"). In 2019 this business was supplemented by the provision of insurance services to non-Japanese clients located in Russia and other countries within the Commonwealth of Independent States ("CIS"). In 2020 the business was further supplemented by two new delegated underwriting authorities providing insurance services to non-Japanese clients primarily in the UK and USA. On 1 January 2020 the Company became a member of the aviation underwriting pool ("the GAUM US pool") managed by Global Aerospace, Inc. (a subsidiary company of Global Aerospace Underwriting Managers Limited incorporated in Delaware in the United States of America). The GAUM US pool underwrites risks primarily located in the USA. The majority of the premium and insurance risks derived from Japanese clients and all of the premium derived from the GAUM pools and non-Japanese clients is ceded to reinsurers in return for reinsurance commission.

All of the Company's business is conducted from its office in the UK or by staff working from their homes in the UK. The agents to which the Company has delegated underwriting authority conduct their business from offices in the UK and USA.

The Company's material lines of business are the provision of non-life insurance services for the following types of commercial risk:

- Marine, aviation and transport risks
- Fire and other damage to property risks
- General liability insurance risks

Significant business or other events

Covid-19 pandemic

The downward effects on gross written premium caused by reductions in UK and global trade due to the Covid-19 pandemic were largely offset by increases in premium rates, leaving gross written premium on a like-for-like basis largely unchanged.



Despite increases in claim reserves for potential liabilities arising from the Covid-19 pandemic, the majority of which are allocated to the Fire and Other Damage to Property class of business, the net claim ratio (being claims net of reinsurance recoveries divided by premiums net of amounts ceded to reinsurers) improved to 26.0% in 2020 compared to 29.2% in 2019. This continues the relatively benign trend seen in net claims experience in recent years. The level of net attritional claim activity in the Marine, Aviation and Transport class of business remained low, while net claim activity in the Third Party Liability class fell compared to 2019.

The sharp fall in the Bank of England base rate following the outbreak of the Covid-19 pandemic significantly reduced available yields from asset types with no exposure to market risk. Some of the Company's investments in these asset types were made before the pandemic and continued to benefit from higher rates of return in 2020 until they progressively matured over the course of the year. On reinvestment the available return has fallen to negligible levels.

At the beginning of 2020 the Company's entire investment portfolio had no exposure to market risk. In the first quarter of 2020 the Company began to invest in a fund, regulated under the Undertakings for the Collective Investment in Transferable Securities ("UCITS") regulatory framework, with exposure to market risk. In response to the fall in the Bank of England base rate, investment in this fund is planned to increase over the course of 2021 with the aim of achieving a marginal increase in yield.

The Company's business continuity plan was put into action following the outbreak of the Covid-19 pandemic and the UK Government's instruction for all staff to work from home. The Company did not experience any significant disruption due to the requirement to work from home.

Business in the CIS

From 1 April 2019 the Company commenced provision of insurance services to both Japanese and non-Japanese clients located in Russia and other countries in the CIS. This business, which contributed to an overall increase in gross written premium in 2019, has seen growth in 2020, albeit it has been developed over the full twelve months of 2020 whereas it was only developed over nine months of 2019. All of the premium from non-Japanese clients continues to be ceded to reinsurance companies in return for reinsurance commission.

Entry into Global Aerospace US underwriting pool and new delegated underwriting authorities

On 1 January 2020 the Company became a member of the aviation pool managed by Global Aerospace, Inc. (a subsidiary company of Global Aerospace Underwriting Managers Limited incorporated in Delaware in the United States of America). During 2020 the Company also entered into two new delegated underwriting authority agreements providing insurance services to non-Japanese clients primarily in the UK and USA. All of the premium from these arrangements is ceded to reinsurance companies in return for reinsurance commission.

Brexit

The Company lost its licence to undertake business in the European Union ("EU") on 31 December 2020 following the United Kingdom's departure on 31 January 2020. Its Japanese clients' risks located in the EU and European Economic Area ("EEA") are now underwritten by other group companies based in EU countries and reinsured back to the Company such that its overall gross written premium has been largely unaffected. In undertaking this reinsurance, the Company pays reinsurance commission to the ceding companies with a consequent adverse effect on profitability. Those risks located in the EU and EEA previously underwritten by the GAUM UK pool are now underwritten by a pool made up of companies based in EU countries. This business and the Company's associated reinsurance commission earnings have therefore been lost producing a further adverse effect on profitability. These adverse effects are, however, more than offset by growth in other areas.

Future Developments

Over the course of 2021 the Company expects to remain profitable and continue its strategy of providing insurance services to its Japanese clients, participating in the GAUM UK and GAUM US pools, and developing its other non-Japanese business. The other non-Japanese business will continue to comprise the provision of insurance services to clients located in Russia and other CIS countries along with the development of delegated underwriting authorities providing insurance services to clients primarily in the UK and USA. Under this strategy the majority of the premium and insurance risk derived from Japanese clients and all of the premium



and insurance risk derived from the GAUM pools and non-Japanese clients will be ceded to reinsurers in return for reinsurance commission.

The full effect of the Covid-19 pandemic on business from Japanese and non-Japanese clients remains uncertain. The reduction in UK and global trade due to the pandemic has had a downward effect on business volumes in 2020, an effect that is expected to continue into 2021. In both years this effect has been and is expected to be more than offset by growth from new business initiatives. Reserves have been set for potential claims arising from Covid-19, and although further reserves may be required in 2021 depending on how the pandemic and consequent claims develop, these are not expected to exceed the increase in profits from new business initiatives given the reinsurance the Company has in place.

The Company will continue to review its investment strategy with a view to optimising the balance between its investment return and the associated investment credit and market risks. The sharp fall in the Bank of England base rate following the outbreak of the Covid-19 pandemic has significantly reduced available yields from asset types with no exposure to market risk. In response to this development, the Company intends to increase its investment in the UCITS fund with exposure to market risk to achieve a marginal increase in yield. Notwithstanding this approach the overall investment yield is expected to be lower in 2021 than in 2020 leading to a decline in investment return.

Despite the adverse effects of the loss of its licence to undertake business in the EU and acknowledging the uncertainty surrounding the consequences of the Covid-19 pandemic, the Company currently expects to maintain a wide surplus of eligible Own Funds over its Solvency Capital Requirement throughout 2021.

A.2 Underwriting Performance

The main business of the Company during 2020 was:

- a) provision of insurance services to Japanese clients located in the UK, European Union, Africa and Russia,
- b) participation in the GAUM UK and GAUM US pools ceding all the premium and insurance risks derived therefrom to its immediate parent company, MSIJ in return for reinsurance commission,
- c) provision of insurance services to non-Japanese clients located in Russia and other countries in the CIS ceding all the premium and insurance risks derived therefrom to reinsurers in return for reinsurance commission, and
- d) provision of insurance services to non-Japanese clients primarily located in the UK and USA through delegated underwriting authorities ceding all the premium and insurance risks derived therefrom to reinsurers in return for reinsurance commission.

The below table summarises the Company's underwriting performance:

Technical account	2020 £k	2019 £k
Gross Written Premium	111,582	80,482
Net Earned Premium	3,158	3,545
Net Claims Incurred	(820)	(1,035)
Reinsurance Commission Income net of Gross Commission	8,240	6,500
Underwriting Result before Expenses	10,578	9,010
Technical Expenses	(324)	(118)
Operational Expenses	(7,729)	(9,028)
Underwriting Profit/(Loss)	2,525	(136)

<i>Net Claims ratio</i>	26%	29%
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The new delegated underwriting authorities commenced in 2020 are primarily responsible for the increase in gross written premium from £80,482,000 in 2019 to £111,582,000 in 2020. These have been supplemented by



additional gross written premium from the Company's new membership of the GAUM US pool, although this was partially offset by a decline in the GAUM UK pool due to the transfer of business located in the EU and EEA to a pool based in the EU.

All of the business from the new delegated underwriting authorities and from the GAUM pools is ceded to reinsurers, and hence these developments have had no effect on Net Earned Premium which has remained in 2020 at a level consistent with 2019. Reinsurance commission income net of gross commission, being the reinsurance commission receivable less the commission payable for the period of cover within the calendar year, has increased from 2019 to 2020 due to the net commission earned from the new delegated underwriting authorities combined with the net commission income from policies written for non-Japanese clients located in Russia and other CIS countries in 2019 but earned in 2020. This increase in net commission income is primarily responsible for the improvement in the underwriting result before expenses.

As noted above, all of the non-Japanese business and the majority of business from Japanese clients is ceded to reinsurers and hence gross claims are mostly recoverable under the Company's reinsurance policies leaving a relatively small net claim charge. The net claim ratio for the retained business improved to 26.0% in 2020 compared to 29.2% in 2019. This continues the relatively benign trend seen in net claims experience in recent years and is notwithstanding increases in claim reserves for potential liabilities arising from the Covid-19 pandemic, the majority of which are allocated to the Fire and Other Damage to Property class of business. The level of net attritional claim activity in the Marine, Aviation and Transport class of business continues to be low, while net claim activity in the Third Party Liability class has fallen since 2019.

The combination of these largely favourable developments has resulted in the underwriting result before expenses improving from £9,010k in 2019 to £10,578k in 2020.

Material lines of business

The Company's underwriting performance in 2020 and 2019 analysed by material line of business as presented in its financial statements is shown below:

2020	Marine, Aviation and Transport £k	Fire and other damage to property £k	General Liability £k	Other £k	Total £k
Gross Written Premium	24,985	69,190	7,896	9,511	111,582
Net Earned Premium	1,381	1,210	405	162	3,158
Net Claims Incurred	(191)	(1,155)	695	(169)	(820)
Reinsurance Commission Income net of Gross Commission	1,539	4,537	1,551	613	8,240
Underwriting Result before Expenses	2,729	4,591	2,651	606	10,577
Technical Expenses					(324)
Operational Expenses					(7,729)
Underwriting Profit/(Loss)					2,524

<i>Net Claims ratio</i>	14%	96%	(172%)	104%	26%
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2019	Marine, Aviation and Transport £k	Fire and other damage to property £k	General Liability £k	Other £k	Total £k
Gross Written Premium	23,680	44,533	10,042	2,228	80,482
Net Earned Premium	1,337	1,384	638	187	3,546
Net Claims Incurred	527	(370)	(1,150)	(42)	(1,035)
Reinsurance Commission Income net of Gross Commission	1,475	3,121	1,715	189	6,500
Underwriting Result before Expenses	3,339	4,135	1,203	333	9,010
Technical Expenses					(118)
Operational Expenses					(9,028)
Underwriting Profit/(Loss)					(136)

<i>Net Claims ratio</i>	<i>(39%)</i>	<i>27%</i>	<i>180%</i>	<i>23%</i>	<i>29%</i>
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Marine, Aviation and Transport

The gross written premium for the Marine, Aviation and Transport line of business during the reporting year was £24,985k compared to £23,680k in the prior year. The decline in GWP from the GAUM UK pool of £4,703k due to the transfer away of business located in the EU and EEA was more than offset by GWP of £5,405k from the Company's new membership of the GAUM US pool. This net increase of £702k was supplemented by a marginal increase in Marine and Transport business from Japanese clients.

The Company continues to cede its entire GAUM premium and the majority of its premium from Japanese clients to reinsurers. The marginal increase in net earned premium from the retained business reflects the marginal increase in GWP from Japanese clients.

The marginal increase in reinsurance commission income net of gross commission from £1,475k in 2019 to £1,539k in 2020 reflects the increase in reinsurance commission earned, which in turn reflects the marginal increase in the total business from the GAUM pools and the consequent increase in reinsurance premium ceded from which reinsurance commission is earned.

The net claim ratio in 2020 at 14% compares to *negative* 39% in 2019. The level of net attritional claim activity continues to be low with 2019 having benefitted from favourable developments in prior year claim reserves.

Fire and Other Damage to Property

The gross written premium for the Fire and Other Damage to Property line of business during the reporting year was £69,190k compared to £44,533k in the prior year. The majority of this increase is due to new business from the new delegated underwriting authorities, supplemented by growth in business from non-Japanese clients in the CIS. The Company's gross written premium from Japanese clients also experienced marginal growth during the year driven by increased business from existing clients.

All of the premium from the new delegated underwriting authorities, the non-Japanese clients in the CIS and the majority of the premium from the Japanese clients was ceded to other insurance companies in return for reinsurance commission. Hence the new delegated underwriting authorities and non-Japanese CIS business have had no effect on net earned premium, but are responsible for the increase in reinsurance commission income net of gross commission from £3,121k in 2019 to £4,537k in 2020.

The fall in net earned premium from 2019 to 2020 is due to a marginally higher ceding ratio for the gross premium earned from Japanese clients in 2020 compared to 2019.

The net claim ratio in 2020 of 96% compares to 27% in 2019 and reflects increases in claim reserves for potential liabilities arising from the Covid-19 pandemic.

General Liability

The gross written premium for the General Liability line of business in 2020 was £7,896k compared to £10,042k in 2019. A one-off policy written in 2019 for a new client was not renewed, and hence gross written premium in 2020 has fallen back to a level commensurate with 2018. All of the business from the client was



ceded away and hence it had no effect on net earned premium. The decline in net earned premium from 2019 to 2020 is due to a marginally higher ceding ratio for the gross premium earned from General Liability business in 2020 compared to 2019.

The commission earned from the one-off policy written in 2019 also accounts for the fall in reinsurance commission income net of gross commission from £1,715k in 2020 to £1,551k in 2019.

The net claim ratio in 2020 was *negative* 172% compared to 182% in 2019. Whereas 2019 saw an increase in claim activity and consequent increase in the net claim ratio, 2020 benefitted from favourable developments in prior year claim reserves.

Other

Gross written premium for the Other lines of business increased from £2,228k in 2019 to £9,511k in 2020 due to new business from the new delegated underwriting authorities.

All of the premium from the new delegated underwriting authorities was ceded to other insurance companies in return for reinsurance commission. Hence it had no effect on net earned premium, but is responsible for the increase in reinsurance commission income net of gross commission from £189k in 2019 to £613k in 2020.

Material geographical areas

The Company provides insurance services from the UK to its clients located primarily in the UK, European Union, Africa, Russia and other CIS countries. In territories where the Company does not have a licence to underwrite risks directly they are underwritten by local insurance companies and reinsured back to the Company. Business from the Company's participation in the GAUM pool is conducted through GAUM's offices established in the UK and USA. The agents to which the Company has delegated underwriting authority conduct their business from offices in the UK and USA.

The Company's underwriting performance in 2020 and 2019 by material geographical area based on the location of risk is set out in the following tables:

2020	UK £k	European Union £k	Africa £k	CIS £k	USA £k	Other £k	Total £k
Gross Written Premium	34,319	9,524	5,532	27,129	19,227	15,851	111,582
Net Earned Premium	2,151	632	351	48	-	(23)	3,158
Net Claims Incurred	(94)	(410)	10	(95)	-	(232)	(821)
Reinsurance Commission Income net of Gross Commission	3,623	1,321	322	1,469	588	917	8,240
Underwriting Result before Expenses	5,680	1,544	682	1,421	588	661	10,577
Technical Expenses							(324)
Operational Expenses							(7,729)
Underwriting Profit/(Loss)							2,523

Net Claims ratio	4%	65%	(3%)	200%	-	(991%)	26%
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2019	UK £k	European Union (excl UK) £k	Africa £k	CIS £k	USA £k	Other £k	Total £k
Gross Written Premium	25,688	12,793	4,163	22,137	1,942	13,759	80,482
Net Earned Premium	2,238	859	275	10	-	164	3,545
Net Claims Incurred	392	(613)	(77)	(11)	-	(725)	(1,035)
Reinsurance Commission Income net of Gross Commission	3,375	1,338	345	293	37	1,112	6,500
Underwriting Result before Expenses	6,004	1,583	543	292	37	550	9,010
Technical Expenses							(118)
Operational Expenses							(9,028)
Underwriting Profit/(Loss)							(136)

Net Claims ratio	(17%)	71%	28%	106%	-	444%	29%
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During 2020 gross written premium increased in all regions except the European Union, where it declined primarily due to the transfer away of business previously written by the GAUM UK pool. The growth in the UK and USA is due to the business from the new delegated underwriting authorities combined with the



Company's new membership of the GAUM US pool. The increase in gross written premium in the CIS is due to growth in the non-Japanese business in the region, this business having commenced in April 2019.

The reinsurance commission income net of gross commission from the CIS has increased markedly in 2020 as commissions related to business written late in 2019 are earned in 2020.

The Company has continued to see growth in Africa despite the effects of the Covid-19 pandemic on the region, which has translated into a marginal increase in contribution from net earned premium and reinsurance commission income net of gross commission.

A.3 Investment Performance

At the beginning of 2020, the Company's entire investment portfolio comprised only investments in bank Commercial Paper (classified as corporate bonds), holdings in money market funds, bank term deposits, and operational cash balances. As noted above, in the first quarter of 2020 the Company began to invest in a fund regulated under the Undertakings for the Collective Investment in Transferable Securities ("UCITS") regulatory framework, with investment continuing over the course of 2020 up to a value of £20,228k by 31 December 2020.

The fair value of the investment portfolio by investment type at 31 December 2020 and 31 December 2019 is set out in the following table:

	Fair value at 31 Dec 2020 £k	Fair value at 31 Dec 2019 £k
Corporate bonds	9,975	39,820
Bank term deposits	61,653	58,000
UCITS fund	20,228	-
Money market funds	35,793	10,657
Current bank accounts	3,278	6,717
Total	130,927	115,194

The allocation of funds to the various investment types is set by reference to risk appetites which limit the concentration of deposits or investments with any single counterparty, and ensure minimum levels of creditworthiness and liquidity. The highest level of return is sought within these constraints.

The returns achieved in 2020 and 2019 by investment type are set out in the following tables:

2020	Corporate Bonds	Bank term deposits	UCITS fund	Money market funds	Total
Return (£k)	190	486	228	50	954
Expenses (£k)	(17)	-	-	-	(17)
Net of expenses	174	486	228	50	937
Yield (% of amount invested)	0.9%	0.8%	2.0%	0.1%	0.8%
Expenses (%)	(0.1%)	-	-	-	(0.0%)
Net of expenses	0.9%	0.8%	2.0%	0.1%	0.7%

2019	Corporate Bonds	Bank term deposits	UCITS fund	Money market funds	Total
Return (£k)	340	715	-	84	1,139
Expenses (£k)	(20)	-	-	-	(20)
Net of expenses	320	715	-	84	1,119
Return (% of amount invested)	1.0%	1.1%	-	0.5%	1.0%
Expenses (%)	(0.1%)	-	-	-	(0.0%)
Net of expenses	1.0%	1.1%	-	0.5%	1.0%



The investment return net of expenses in 2020 at 0.7% compared to 1.0% in 2019. The decline is due to the fall in the Bank of England base rate following the outbreak of the Covid-19 pandemic. At the time of the cut in the base rate the Company was holding bank Commercial Paper (classified as Corporate Bonds) and bank term deposits with fixed interest rates set beforehand. These therefore maintained their return over the course of 2020 until maturity. Available rates for reinvestment were, however, much lower reflecting the fall in the base rate leading to an overall decline in yield from these asset types between 2019 and 2020. This was partially offset by the higher yield from the investment made in the new UCITS fund from the first quarter of 2020 onwards.

As a result of these developments overall investment income (net of expenses and charges) declined from £1,119,000 in 2019 to £937,000 in 2020.

Investment expenses

Investment expenses incurred over the year to 31 December 2020 of £17k (2019: £20k) comprise arrangement fees for term deposits and bank Commercial Paper.

A.4 Performance of other activities

The Company had no other material income or expenses during the years to 31 December 2020 and to 31 December 2019 other than those arising from its underwriting and investment activities.

A.5 Any other information

The Company has no other information to report on its business and performance.



B. System of Governance

B.1 General Information on the system of governance

Structure of the administrative, management or supervisory body

Throughout 2020 the Company's board of directors (the "Board") was composed of two independent non-executive directors, one non-executive director employed by another company in the same group and three executive directors. The Board has ultimate responsibility and authority over the conduct of all of the affairs of the Company and has established and adopted a formal document detailing its terms of reference and matters reserved for the Board. The Board is chaired by an independent non-executive director.

The role of the Board is to:

- (i) create value for the shareholder, and ensure that obligations to the shareholder and other stakeholders are understood and met,
- (ii) set values and standards,
- (iii) establish a sustainable business model and a clear strategy consistent with that model,
- (iv) provide the entrepreneurial leadership of the Company within a framework of prudent and effective controls which enable risk to be assessed and managed,
- (v) articulate and oversee clear and measurable statements of risk appetite against which major business decisions are actively assessed,
- (vi) ensure systems and controls are in place to comply with all relevant regulations,
- (vii) promote a culture that supports prudent management,
- (viii) ensure that the necessary financial and human resources are in place for the Company to meet its objectives, and
- (ix) review management performance.

The Board has delegated its authority to a number of its committees to facilitate and assist with the execution of its responsibilities. The Board committees operate in accordance with their individual Terms of Reference and other relevant policies, frameworks and procedures. The Company's committee structure is set out in Appendix 2.

Audit Committee

The Audit Committee comprises all the non-executive directors and meets at least four times a year. The regular attendees of the Audit Committee include the Chief Executive Officer, Chief Financial & Operations Officer, Chief Actuary and Chief Risk Officer, Head of Compliance, and Head of Internal Audit. The Audit Committee is chaired by an independent non-executive director.

The main roles of the Audit Committee are to:

- review and monitor the integrity of the Company's financial statements,
- review the annual accounts and annual regulatory returns, and make recommendations with regard to these to the Board,
- review reports from internal and external auditors,
- monitor and review the effectiveness of the Internal Audit function, and
- monitor and review the independence, objectivity and effectiveness of External Auditors.

Risk and Capital Committee

The Risk and Capital Committee comprises all the directors, Chief Underwriting Officer, Chief Actuary and Chief Risk Officer, and Head of Compliance. The Risk and Capital Committee meets at least four times a year. The Risk and Capital Committee is chaired by an independent non-executive director.

The main roles of the Risk and Capital Committee are to:

- oversee risk management and compliance activities and capital adequacy,
- promote a strong corporate risk management and compliance culture throughout the Company, and
- oversee whistleblowing and financial crime prevention activities.



There are two working groups reporting to the Risk and Capital Committee, being the Capital Modelling Working Group and the Emerging Risk Working Group.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee comprises all the non-executive directors and meets at least twice a year. The regular attendees of the Remuneration and Nomination Committee include the Chief Executive Officer and Head of HR. The Chief Executive Officer does not participate in the meeting when conflicts of interest exist or may potentially exist. The Remuneration and Nomination Committee is chaired by a non-executive director.

The main roles of the Remuneration and Nomination Committee are to:

- review, consider and make recommendations to the Board in respect of all proposed appointees to the Board, Senior Management Functions (“SMFs”) and Certification Functions (“CFs”),
- exercise authority delegated by the Board to consider and approve the remuneration of executive directors (with the exception of one executive director seconded from MSIJ) and the Company’s remuneration strategy and policies, and
- ensure that adequate succession planning is undertaken and maintained for all directors and holders of SMFs and CFs.

Underwriting and Operations Committee

The Underwriting and Operations Committee consists of all executive directors, the Head of JIA business, the Chief Underwriting Officer, the Head of Claims and Business Support, the Chief Actuary and Chief Risk Officer, the Head of Compliance and the Technical Control Manager. The regular attendees of the Underwriting and Operations Committee include the Head of HR and the Head of IT.

The Underwriting and Operations Committee meets at least four times a year and its main roles are to:

- review and recommend to the Board strategy in relation to underwriting, claims, reinsurance, outsourcing (including delegated underwriting authorities) and any other key operational matters,
- keep under review the performance and activities of underwriting, claims, reinsurance, outsourcing and other key operational matters,
- identify, oversee, monitor and mitigate (where possible) key insurance, operational and other risks which the Underwriting and Operations Committee is deemed responsible for, along with the associated risk indicators and the effectiveness and adequacy of the associated management controls,
- establish and maintain a Business Continuity Plan and monitor Operational Resilience, and
- monitor and assess all aspects of Conduct Risk.

There are two working groups under the Underwriting and Operations Committee. The Terms of Business Agreement (“TOBA”) Working Group has been established to address TOBA related issues including issue and review of TOBAs. The Data Directory Working Group has been established to review and oversee the Company’s Data Directory.

Finance Committee

The Finance Committee comprises the Chief Financial & Operations Officer and four senior management staff, and meets at least ten times a year. The main roles of the Finance Committee are to:

- review the financial performance and position of the Company,
- oversee all aspects of the Company’s finance related activities including production of annual accounts, annual regulatory returns and business plans,
- oversee the Company’s cash and investment asset portfolios, and
- review and monitor credit and liquidity risk.

The Credit Control Working Group has been established to assist the Finance Committee in monitoring the Company’s premium debt credit exposure.



Reserving Committee

The Reserving Committee comprises five members including two executive directors, the Chief Actuary and Chief Risk Officer, and the Head of Claims. The Reserving Committee meets each quarter to review and approve (i) the best estimate of claim reserves (including incurred but not reported claims) and management margin in accordance with UK Generally Accepted Accounting Practice (“UK GAAP”) and (ii) the best estimate of technical provisions and risk margin as calculated in accordance with Solvency II regulations at each quarter-end.

To support the Board and Board Committees, the Company has established two types of management meeting, being i) an Executive Directors Meeting and ii) a Managers Meeting. Both forums operate in accordance with their individual Terms of Reference.

Executive Directors Meeting

The Executive Directors Meeting is composed of the Executive Directors with non-members invited from time to time. The Executive Directors Meeting is held at least ten times per year.

The main role of the Executive Directors Meeting is to assist the Chief Executive Officer in the performance of his duties, including:

- implementation of strategy and key operational plans, policies, and procedures,
- control of budgets,
- developing the Company’s underwriting and investment strategy and plan for recommendation to the Board,
- monitoring financial performance,
- assessing and controlling risk, and
- ensuring appropriate and adequate capabilities and resources are in place.

Managers Meeting

The Managers Meeting is composed of seven senior management staff and four regular invitees. The Managers Meeting is held at least six times a year.

The purpose of the Meeting is to conduct a holistic review of all underwriting, claims, reinsurance and operations with the aim of assisting and improving the day –to-day running of the Company.

System of Governance

The Company provides insurance services to Japanese clients located primarily in the UK, EU, Africa, and Russia.

The Company provides insurance services to non-Japanese clients primarily located in the UK, USA, Russia and other countries within the Commonwealth of Independent States under a combination of inward reinsurance and delegated underwriting authority arrangements.

The system of governance is designed to control the business of the Company.

The Board plays a key role in maintaining an effective system of governance. The Board has adopted a Board Governance Guideline, the purpose of which is:

- (i) to clarify and to promote high standards of board governance within the Company,
- (ii) to apply the provisions of the UK Corporate Governance Code as deemed appropriate in the context of the Company, and
- (iii) to comply with the statutory and regulatory requirements in relation to the operation of the Board.

The structure, size and composition (including the skills, knowledge, experience and diversity) of the Board is regularly reviewed and any necessary changes are recommended to the Board. The Board ensures power and information are not concentrated in one or two individuals, there is not any undue reliance on any one director, and the Board is well diversified in terms of knowledge and experience.

The Board reviews its own performance, constitution and terms of reference to ensure its performance is effective. The Board’s performance evaluation is conducted annually and is periodically facilitated by an



external evaluation process. The Chairman of the Board acts on the results of the performance evaluation by recognising the strengths and addressing the weaknesses.

The Compliance function also periodically reviews the Board's performance to ensure it is performing in line with legislative requirements. The review by the Compliance function was last carried out in November 2020.

The Board is responsible for articulating and maintaining an effective culture to support the business model and business practice. The Board monitors and reviews the culture throughout the year.

While the Board retains ultimate responsibilities, the Board delegates its responsibilities to its committees. Each committee reviews its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness. The outcome of the reviews along with an action plan is reported to the Board and amendments to the terms of reference of the committees are recommended to the Board where necessary.

The Board holds an annual strategy meeting prior to formal consideration and approval of the budget. Main topics of the Strategy Meeting include review of the underwriting and marketing environment in which the Company operates, new business opportunities, and claims development.

The Strategy Meeting is attended by all the directors and senior management. It promotes good communication between senior management and the non-executive directors and provides a good opportunity for non-executive directors to gain detailed insight into the business of the Company.

The organisation structure is regularly reviewed as part of the review of the Management Responsibilities Map which sets out a list of the Company's key functions, a summary of the significant responsibilities allocated to the individuals who are responsible for those functions, and the reporting lines of each of those individuals.

The Company has identified the following as its key functions:

- Risk Management Function
- Compliance Function
- Internal Audit Function
- Actuarial Function
- Finance Function
- Underwriting Function
- Information Technology Function
- Claims Function
- Reinsurance Function
- Investment Management Function
- Japanese Interests Abroad Marketing Function

The key functions regularly report their activities to the Board and its committees. The Risk and Capital Committee reviews the remit of the Risk Management, Actuarial, and Compliance functions, and the Audit Committee reviews that of the Internal Audit function. The Risk and Capital Committee and Audit Committee arrange private sessions between those functions and the non-executive directors to ensure any concerns or issues are raised and discussed without the presence of the executive directors where necessary.

The Risk and Capital Committee regularly reviews the effectiveness of the Risk Management and Compliance functions, and the Audit Committee regularly reviews that of the Internal Audit function.

Any material change in the system of governance that have taken place over the reporting period

There were no material changes in the system of governance over the reporting period.

Remuneration Governance

The Company has a Remuneration and Nomination Committee reporting to the Board, the membership of which is composed exclusively of non-executive directors. The scope of the Remuneration and Nomination Committee is set out in the 'Structure of the administrative, management and supervisory body' section above.

The Company has a Remuneration Policy which is reviewed every two years. Significant changes to the Remuneration Policy are reviewed and approved by the Remuneration and Nomination Committee and presented to the Board.



Remuneration Policy

Policy and practices

The Company's remuneration policy is intended to ensure there are appropriate policies, procedures and practices in place which articulate a reward framework that:

- is aligned to the long-term business strategy, business objectives and risk appetite,
- has appropriate linkage to the Company's performance and individuals' performance,
- is compliant with relevant PRA and FCA regulation or guidelines,
- supports the Company's aim of attracting, retaining and motivating its employees,
- is affordable considering the Company's overall performance and plans, and
- sets a consistent approach across the organisation

Any divergence from the policy must be supported by clear rationale and approved accordingly by the responsible Executive Director and the Remuneration and Nomination Committee.

All proposals for remuneration of Executive Directors and senior individuals paid over a set amount defined in the Remuneration and Nomination Committee's Terms of Reference (including but not limited to payments on appointment, salary increases, promotions, and termination packages) are referred to and approved by the Committee prior to implementation.

Principles

The Company's remuneration policy is comprised of fixed, variable and retention pay components as described below:

Fixed Pay

Fixed Pay is primarily determined by pricing roles relative to the local employment market, and is supported by independent market data. Increases are not automatic and changes to fixed pay consider a range of factors including external and internal relativities, the demand for the skills and experience necessary to perform the role as well as taking into account the individual's performance.

Fixed pay is comprised of base salary and benefits, including eligibility to participate in the Company's defined contribution pension scheme.

Variable Pay

Variable Pay refers to all cash awards which are made over and above fixed pay to recognise discretionary effort and performance against the achievement of goals and targets. Other than in exceptional circumstances (such as part of an approved recruitment package) variable pay is not guaranteed.

a) Discretionary Bonus

A discretionary bonus is allocated to reward performance during the previous calendar year. All employees are eligible to be considered for a discretionary bonus award, however awards are not necessarily granted to all employees and not all employees will be awarded a discretionary bonus every year. Awards are linked to overall performance ratings determined under the performance management process and are geared to rewarding higher performance with higher rewards.

b) Executive/Senior Manager Bonus Schemes

Executive directors and certain senior managers participate in bonus schemes where bonuses are limited within ranges and include deferral provisions. These schemes are designed to reward performance during the previous calendar year, promote sound and effective risk management and discourage excessive risk taking.

Retention Pay

a) Annual retention awards

Annual retention awards are limited to Executive Directors and are limited within ranges. The ranges are in place to promote sound and effective risk management and to discourage excessive risk taking. Claw-back provisions are also in place.



b) Other retention awards

Other retention awards are created on a needs basis to support major projects or to retain highly valued staff. They are used in limited circumstances.

Performance Criteria

The performance management process is based on the goals for the business set by the Board in the Company's short and longer-term business plans, and cascades these from the management to individual members of staff to align them with and give them clear visibility of the high-level plans. Specific goals and targets are determined by reference to a range of factors including financial, customer focus, processes and interaction with colleagues.

Pension and early retirement schemes

The Company operates a defined contribution pension scheme with all employees eligible to receive a fixed contribution from the Company. Employees have access to an on-line portal which allows them to:

- choose from a variety of funds,
- carry out online risk profiling, and
- perform pension modelling and review fund management details.

Employees can make additional voluntary contributions by salary sacrifice, subject to statutory limits.

Material Transactions

There were no material transactions in connection with remuneration during the reporting period with shareholders or with persons who exercise a significant influence over the Company.

B.2 Fit and proper requirements

Skills, Knowledge and Expertise

All individuals who run the Company and its key functions must satisfy the requirements of the Company's Fit and Proper policy, which is based on regulatory requirements. To be fit for any given role, they must have the relevant qualifications and undergone all training required to enable them to perform the key function effectively and in accordance with any relevant regulatory requirements, and to enable them to contribute to the sound and prudent management of the firm.

Assessment of Fitness and Propriety

The Company has a policy which sets out its procedures to ensure that all those who effectively run the Company are, and remain, fit and proper to a) perform their function effectively in accordance with any relevant regulatory requirements and b) contribute to the sound and prudent management of the Company. Holders of Senior Management Functions (SMFs) and Certification Functions (CFs) including those identified as Material Risk Takers and Key Function Holders, and Notified Non-Executive Directors are classified as those who effectively run the Company. In order to meet fit and proper requirements each of these individuals must satisfy the following criteria:

- 1) they must have suitable personal characteristics (including being of good repute and integrity),
- 2) they must possess the appropriate level of competence, knowledge and experience,
- 3) they must have the requisite qualifications,
- 4) they must have undergone or be undergoing all training required to enable such person to perform his or her key function effectively in accordance with any relevant regulatory requirements and contribute to the sound and prudent management of the Company, and
- 5) they must comply with Conduct standards and rules.

All regulated roles are set out in the Company's Management Responsibilities Map, which is reviewed as and when required, and at a minimum on a quarterly basis. These roles are reviewed and reported annually to the Remuneration and Nomination Committee and Board of Directors.



In order to enable individuals performing the above roles to be able to demonstrate that they are and remain “Fit and Proper”, the following procedures apply:-

Initial assessment

Recruitment is subject to a screening process undertaken by an independent screening agent including but not limited to:

- Verification of CV
- Verification and review of professional qualifications for the last six years
- Review of criminal record (according to police records)
- Review of financial records
- Confirmation of eligibility to work in the role location
- Assessment of personal characteristics and past business conduct, such assessment to include taking of references from the individual’s current and previous employers for the last six years
- Competency assessment and skills gap analysis
- Review of training needs

Candidates for these roles are assessed by way of a structured selection process. Structured interview questions are available to support the process.

Ongoing Assessment

Employees are managed on an ongoing basis via the Company’s Performance Management process.

Annual Fit and Proper declarations are signed by individuals performing Senior Management Functions or Certification Functions and by NEDs. This declaration includes confirmation that no breach of regulatory conduct standards or financial mismanagement or criminal activity has taken place within the last year.

Criminal records and financial records are checked on a five yearly basis via an outsourced provider.



B.3 Risk management system including the own risk and solvency assessment

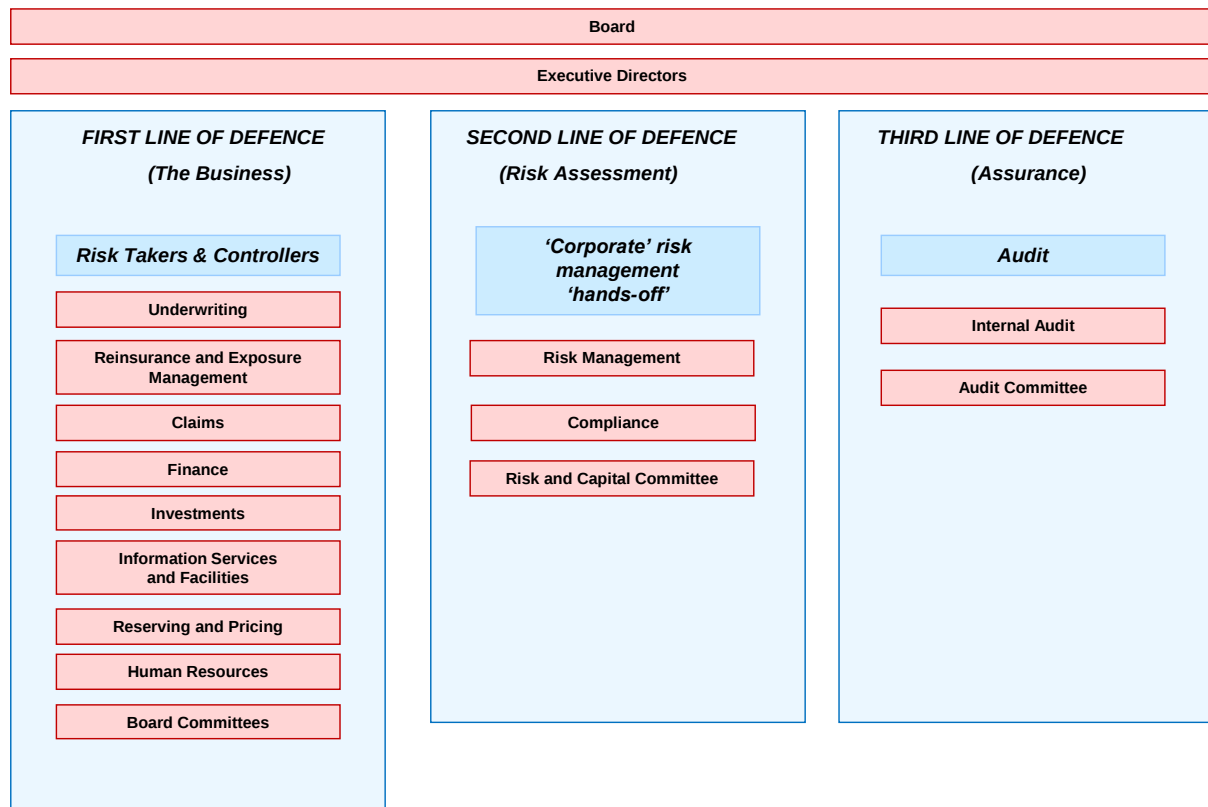
Risk Management System

The Board is ultimately responsible for managing all risks facing the business. The Board sets relevant risk appetites and tolerances, and approves the Company's overarching risk strategy.

The Company's risk management system is set out in the Risk Management Framework and in individual risk policies and frameworks relating to specific risks.

The Board has delegated oversight of the Risk Management Framework to the Risk and Capital Committee ("RCC"). Beneath that, the oversight of individual risk categories has been delegated to one of the Company's Board Committees with an Executive Director assigned as a Risk Sponsor.

The Company uses the "three lines of defence" governance model as illustrated by the chart below:



Note: The first line of defence Board Committees are the Underwriting and Operations Committee, the Finance Committee and the Reserving Committee.

Each line of defence is defined as follows:

1st Line of Defence - Risk Takers and Controllers

The risk takers and controllers comprise the majority of the people employed by the Company. They commit the Company to risk via income generating activities and interaction with existing or potential customers and clients (e.g. Underwriting and Claims functions) or through the development and operation of business infrastructure enabling staff to carry out tasks (e.g. IT and Finance functions). For example, an underwriter carries out specific risk-mitigating activities during the selection and underwriting of a risk. The 1st Line of Defence conducts regular risk and control self-assessments.

In addition, there are employees that help control, assure and reinforce the quality of the activities of the risk takers and controllers. They ensure that the 1st line is taking and managing and controlling the risks they expose the Company to within defined parameters. Often these employees sit alongside the risk takers.



2nd Line of defence – Corporate Risk Management

This group comprises the Compliance Function, the Risk Management Function, and Risk and Capital Committee. These functions do not directly commit the Company to taking any risk. Instead they facilitate the ability of the 1st line to take the appropriate level of risk and effectively manage the exposures the Company faces as a result. The 2nd line of defence provides effective oversight, challenge, and reporting of the 1st line's risk-taking activities. Where required, the Risk Management Function seeks assistance from areas with specialist knowledge such as Finance, Actuarial and Compliance Functions.

3rd Line of defence – Internal Audit

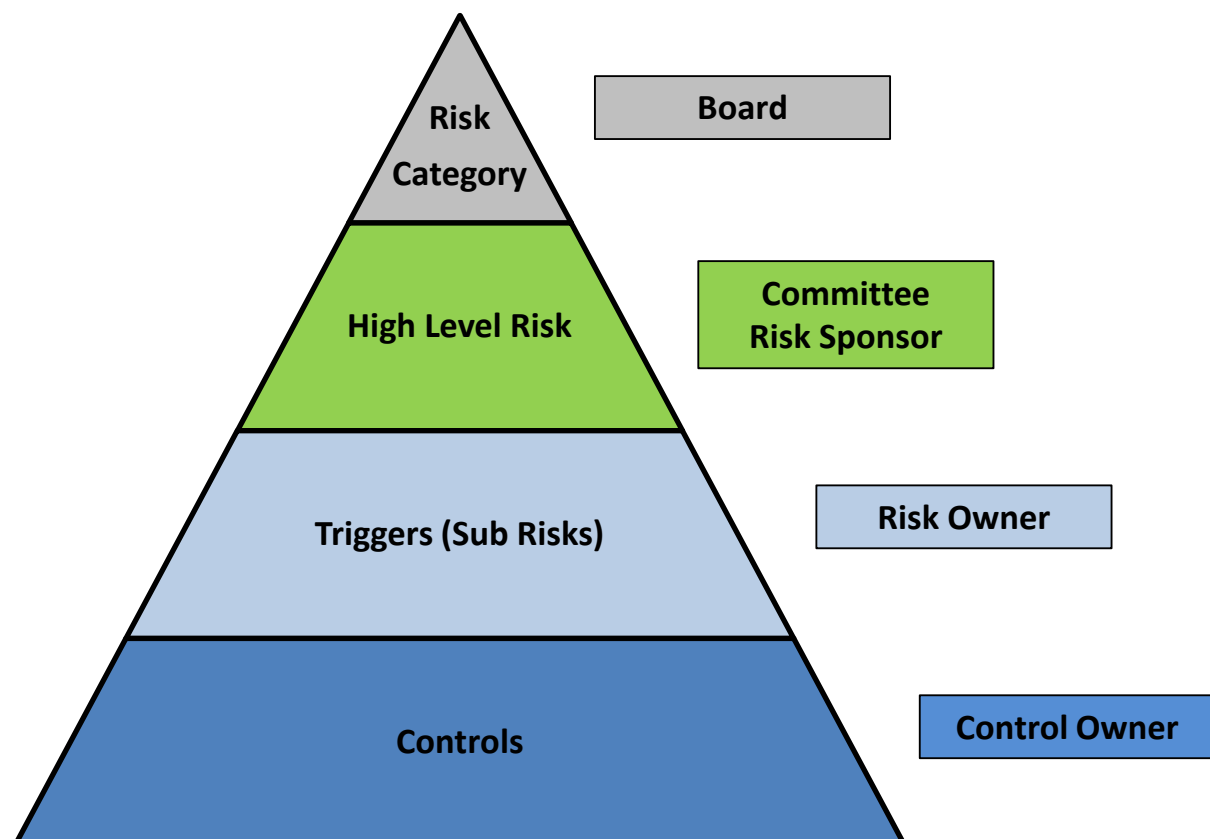
This consists of the Internal Audit Function which provides independent assurance as to the appropriateness and effectiveness of the Company's system of internal control. The Internal Audit Function is responsible for reviewing and testing all aspects of internal control across the business, including the effectiveness of the Board and committee structure. It reports directly to the Audit Committee.

The Risk Management Function attends all the Committees with the exception of the Remuneration and Nomination Committee. This facilitates the integration of the risk management system into the decision making process.

The Company's overall system of governance is considered adequate given the nature, scale and complexity of the risks inherent to its business.

Risk Reporting

The Company has a Risk Register which holds information regarding the Company's risk profile. The register contains details of risks, controls and assessment data. The information is tiered to allow for risks to be managed and reported at different levels of granularity. The chart below shows how the risks are defined and controlled.





Should the Board or a Committee require more detailed data or an exception warrants visibility at a higher level, then the information is available in the register for collation and inclusion within the appropriate reporting pack.

The Risk Management Function produces an Enterprise Wide Risk Exposure Summary report each quarter. This report is designed to provide the Board and the Risk and Capital Committee with an overview of any issues regarding the High Level Risks contained in the Risk Register. This report is also provided to the Underwriting and Operations Committee for review and discussion. The Risk Management Function also provides reports to the Committees on the following matters:

- Actual performance compared to the risk appetites set by the Board. For example, the maximum net impact of any one natural catastrophe claim or event of a magnitude expected to arise once in every ten years measured against the risk appetite that this should not exceed 5% of Own Funds.
- Events and issues arising. For example, a failure to adhere to the Company's guidelines regarding the payment of claims.
- Emerging risks which could affect the Company's business in the future. For example, new laws and regulations.

These reports also include details of any actions arising and the progress made in completing the actions.

The Finance, Underwriting, Claims, Business Operations, Technical Control and IT functions also provide reports to the Board, Finance Committee and the Underwriting and Operations Committee as appropriate. These reports include details of actual performance compared to key performance indicators and key risk indicators, and any issues arising.

Own Risk and Solvency Assessment ("ORSA")

The ORSA process is a continuous process that takes place throughout the year with the aim of informing management decisions with formal analyses of the risk and capital implications of management decisions. A full ORSA Report is produced at least once a year summarising the implications of all key decisions made during the year and incorporating the updated business plan. This is submitted to the PRA to ensure compliance with regulatory requirements. Intermediate ORSA Reports are produced if capital adequacy is affected by a material event or if there is a material change in the Company's risk profile that has not already been adequately accounted for in the Strategy or Risk Appetite setting process. The ORSA Policy and Process document provides a basis for strategy setting for the next year and consideration of future risks and capital requirements.

Certain components of the ORSA Process are run throughout the year for the Board's use in decision making to ensure the Company's risk profile, capital adequacy and solvency position are appropriately monitored and understood, and remain within agreed parameters. For example, the Enterprise Wide Risk Exposure Summary report which is provided to the Board each quarter is a key component of the Risk Exposure section of the ORSA Report. Other components are generally only run once a year.

The ORSA is the responsibility of the Board. The Risk and Capital Committee, through delegated authority from the Board, supports and oversees the process for the development and maintenance of the ORSA. The ORSA Report is approved by the Board.

The chart below shows the ORSA Process and how this is integrated into the decision making of the Company. The individual components of the ORSA process are shown as blue boxes linked by continuous red arrows. The individual components of the ORSA report are shown as numbered blue boxes. The green boxes show how the key business processes of the Company link to and support the ORSA process and report.



Solvency needs

B.4 Internal control system

- conduct the Company's business in an orderly and efficient manner,
- safeguard its assets and resources,
- deter and detect errors, fraud and theft,
- ensure the accuracy and completeness of its data,
- produce reliable and timely financial and management information, and
- ensure adherence to relevant laws and regulations.

i) Control environment

- Holding appropriate ethical values
- Board direction on the importance of internal control



- Management philosophy emphasising the importance of internal control
- Clear assignment of responsibility
- Maintaining secure and accurate information
- Emphasising the importance of staff integrity
- Emphasising the importance of staff competency
- Emphasising the importance of staff development

ii) Identification and evaluation of risks and controls

Risk assessment requires the identification and evaluation of relevant risks to the achievement of the Company's objectives to form the basis for determining how these risks should be managed. Because economic, industry, regulatory and operating conditions continually change, the Company employs the following mechanisms to identify and deal with the emergence of new risks arising from these changes:

- Production of the quarterly Enterprise Wide Risk Exposure Summary report to provide the Board and the Risk and Capital Committee with an overview of issues arising
- Review of actual performance compared to the risk appetites set by the Board
- Maintenance of an Events and Issues log and setting of required actions
- Review of emerging risks and setting of required actions
- Periodic reviews of the terms of reference and constitution of the Board Committees
- Periodic review of the activities of the Board Committees
- Regular assessment of "Key Documents" (as defined below)

iii) Control activities

(a) Main Control Activities

Each function is responsible for ensuring it has in place appropriate strategies, policies, procedures and Terms of Reference (collectively known as the "Key Documents") and where necessary ensuring that these are peer reviewed and approved as appropriate by the Board, a Board Committee or a business function.

The main control activities are those actions undertaken by each function to comply with the Key Documents. They include:

- Approval of individual actions (eg. payment release, reinsurance purchasing),
- Authorisations (eg. setting of underwriting authorities and claim settlement authorities),
- Verifications (eg. peer reviews and independent reviews),
- Reconciliations (eg. reconciliation of data from the underwriting system to the financial ledger),
- Contingency planning (including adequate disaster recovery capabilities),
- Reviews (eg. internal audits and reviews of compliance with regulation and relevant legislation),
- Segregation of duties,
- Monitoring against risk appetite statements, and
- Monitoring of Key Performance Indicators and Key Risk Indicators.

(b) Day-to-day decisions

As well as following formal policies and procedures, control activities include the day-to-day making of informed decisions by appropriately qualified and experienced personnel to:

- Accept risk,
- Transfer risk to third parties,
- Share risk with third parties, and
- Withdraw from unacceptable risks.

iv) Information processes

Relevant information is identified, captured and secured in a form and timeframe that enables staff to carry out their responsibilities effectively. The data flows, the associated controls to ensure the completeness, accuracy and appropriateness of data, and the control owners are comprehensively documented and assessed in the Data Directory and Data Controls Log. The Data Directory and Data Controls Log is reviewed and updated annually by the Data Directory Working Group. The systems for recording and processing data (being



primarily the underwriting system and financial ledger) are restricted to authorised personnel by use of passwords and user IDs. The systems themselves are also protected from external interference by firewalls and other appropriate technologies that prevent in-bound traffic from external sources. In this way the systems are completely segregated from the wider internet.

An accurate, up-to-date and accessible set of Key Documents is maintained by:

- Defining and identifying the Key Documents,
- Controlling production of the Key Documents,
- Ensuring the Key Documents are secure and access restricted as required,
- Reviewing the accuracy and relevance of Key Documents and that they remain up-to-date, and
- Ensuring appropriate audit trails and version control are maintained.

Key Documents are communicated to staff in a way such that they are readily available to inform business decision-making and external reporting.

v) Monitoring effectiveness

As described in Section B3 (“Risk management system including the own risk and solvency assessment”) the Compliance and Risk Management Functions form part of the “second line of defence” and the Internal Audit Function forms part of the “third line of defence” within the Company’s governance model. In fulfilling these roles these functions monitor the management and supervision of the Company’s activities and the actions of staff in performing their duties in relation to internal control. Reports of their findings are made to the relevant oversight Committees, with serious matters escalated to the Executive Directors or Board as appropriate.

The Compliance Function

The Compliance Function is independent of all other day-to-day business operations enabling it to fulfil its role within the “second line of defence” and is headed by the Head of Compliance. The independence of the Head of Compliance is reinforced by a direct reporting line to the Chief Executive Officer. The independence of the Compliance Function is further reinforced by limiting its scope to purely compliance related activities. Similarly the Head of Compliance does not take any part in any of the other day-to-day business operations.

The Head of Compliance is an active member of the Risk and Capital Committee, Underwriting and Operations Committee and Finance Committee, and also regularly attends Board, Audit Committee and Reserving Committee meetings to assist in the performance of his role and gain full visibility of the Company’s activities. The Compliance Function also has access to all staff and information necessary for it to fulfil its responsibilities.

To determine its effectiveness and independence, the Risk and Capital Committee carries out a review of the Compliance Function annually.

B.5 Internal audit function

The Company’s Internal Audit function is provided by employees of its sister company, MS ACS. This outsourcing model for Internal Audit has been followed for many years and has the advantage of enhancing the independence and objectivity of the Internal Audit function. The Head of Internal Audit for the Company reports functionally to the Audit Committee and administratively to the Chief Executive Officer. The Head of Internal Audit appoints qualified and experienced Internal Auditors on a contracting basis to assist with the delivery of the audit plan.

The Internal Audit Function reports directly and formally to the Audit Committee. Copies of audit reports are made available to the Chief Executive Officer and other Executive Directors, Risk Management Function, Compliance Function, External Auditors and to MSIJ’s senior management, including MSIJ’s Internal Audit Function. The Audit Committee also holds private sessions with the Head of Internal Audit.

To achieve the degree of independence necessary to effectively carry out their responsibilities, Internal Auditors have direct and unrestricted access to management information, senior management and the Board.

Independence and Objectivity

Independence is the freedom from conditions that threaten the ability of the Internal Audit Function to carry out its responsibilities in an unbiased manner. Objectivity is an unbiased mental attitude that allows Internal



Auditors to perform audits in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires Internal Auditors not to subordinate their judgment on audit matters to others. Accordingly, the Internal Audit Function must be, and is, independent from the business units subject to audit in order to carry out its duties objectively. Threats to independence or objectivity are managed at the individual auditor, engagement, functional and organisational levels. The provision of Internal Audit services by a sister company improves objectivity and independence as none of the auditors have any operational responsibilities in the Company. Where necessary, contractor resources are engaged to assist with the delivery of the audit plan, which similarly enhances their independence and objectivity.

B.6 Actuarial function

Implementation

The Company's Actuarial Function comprises the Chief Actuary and the Technical Control Manager. The Chief Actuary is the Actuarial Function Holder. The Function has a range of experience across reserving, capital, pricing, reinsurance and risk management. The Actuarial Function is supported by external advisers as appropriate. Various committees, under their terms of references, are empowered to engage external advisers and other support to aid or review the work of the Actuarial Function. The key areas of external support are as follows:

- KPMG LLP provide an independent actuarial opinion on the UK GAAP claim reserves each year.
- Aon Benfield perform the catastrophe modelling calculations for the EU Natural Catastrophe and Property Man made Fire Catastrophe Risk elements of the Standard Formula SCR calculations

The main tasks performed by the Actuarial Function are:

- Reserving (calculation of UK GAAP claim reserves and Solvency II Technical Provisions)
- Pricing (review of pricing tools and technical file reviews)
- Capital Modelling (co-ordination of the Standard Formula calculations)
- Analysis of outputs from the Standard Formula calculation
- Quantitative support for business planning (in particular calculation of claim ratios and capital requirements)

Conflicts of interest are addressed through clear governance structures for material tasks, reporting structures, separation of duties, professional requirements, internal reviews and audit (both internal and external). The Chief Actuary reports to the Chief Financial Officer whilst the Technical Control Manager reports to the Underwriting and Reinsurance Director.

The Company's Actuarial Function is subject to the Company's Fit and Proper policy which ensures that senior staff and function holders have skills appropriate to their roles.

The composition and strength of the Actuarial Function with reference to regulatory guidance and best market practice is subject to continuous review.

B.7 Outsourcing

The Company's outsourcing policy ensures an effective system of governance over its outsourcing arrangements and forms part of the sound and prudent management of the Company's business. The policy reflects the importance of outsourcing to the Company's business and ensures that the services received will meet or exceed the required standards. The policy clearly sets out the tasks to be performed and by whom and the processes and procedures to be applied both prior to entering into an outsourcing agreement and during its lifetime.

The Company's outsourcing policy covers the following:

i) Defining outsourcing categories and service providers: The Policy requires the outsourced service to be categorised as critical outsourcing, material outsourcing, standard outsourcing, or procurement. The Policy lists the criteria used for this purpose. A risk based approach is then adopted with greater focus on critical and material outsourcing.

ii) Definition of responsibilities: The Policy sets out the responsibilities of each person and committee in the outsourcing process. These persons and committees are as follows: Relationship Manager, Chief Financial &



Operations Officer, Function Heads, Compliance Officer, Chief Risk Officer, Underwriting and Operations Committee, Risk and Capital Committee, and Board. The Relationship Manager is the employee with direct responsibility for management of the outsourced service and the relationship with the service provider.

iii) Selection and authorisation procedures for a service provider:

a) Selection

The Policy sets out the requirements for selection of a service provider of suitable quality. They include analysis of the potential impacts on the business of the proposed outsourcing arrangement and list the operational issues that are to be considered. They also include the due diligence to be undertaken on suppliers.

b) Authorisation and reporting

The Policy sets out the authorisation and reporting requirements for suppliers in each outsourcing category. All suppliers of critical and material outsourcing must be approved by the Board.

iv) Contract terms: The Policy sets out in detail the terms to be included in all critical function outsourcing arrangements. These terms include protection of the Company's rights and provision for agreed service level protocols. The Policy also requires all contracts regardless of the category to include terms giving the Company the right to terminate the contract with a reasonable period of notice if the services provided should prove inadequate. It also requires all contracts to provide that the service provider may only terminate the contract with a notice period sufficiently long to enable the Company to find an alternative solution.

v) Monitoring and Review: The Policy defines the frequency, scope and reporting requirements for monitoring and reviewing of outsourcing contracts. The approach to monitoring and review is dependent upon the category of the outsourcing contract.

vi) Contracts database: Following agreement with the supplier, all contracts are recorded in a central contract database which includes their expected expiry dates. The database also holds scanned copies of the executed legal agreements and any supporting documentation.

Location of outsourcing providers

The jurisdiction of all of the Company's outsourcing providers is the UK.

B.8 Any other information

The Company has no other material information to report regarding its system of governance.



C. Risk Profile

C.1 Underwriting risk

Material Underwriting Risks

Underwriting risk comprises two elements, unprofitable future underwriting (premium risk) and adverse claims development from business already underwritten (reserve risk). The Company relies heavily on reinsurance protection which mitigates both premium and reserve risk. Therefore, when claims are paid to policyholders a significant proportion of this claim can be recovered from reinsurers. Facultative reinsurance protection is specific and is purchased for individual policies. Treaty reinsurance is purchased to protect all policies within a line of business.

The only part of the Company's business which is not fully protected by reinsurance, and for which the Company retains underwriting risk, is its provision of insurance services to Japanese clients. This Japanese Interests Abroad market is limited and restricts the extent to which the Company can select the risks it wishes to write. If a risk is not deemed appropriate for the Company's risk profile, consideration is given as to whether a significant proportion of the risk could be ceded to reinsurers, and in particular to MSIJ, along with the reinsurance commission which might be available to the Company for doing so.

Property and marine cargo losses arising from man-made catastrophes, natural catastrophes and large fire losses are the main drivers of premium risk. The Company has exposure to losses arising from catastrophes in both South-East Asia and Europe. The Company writes worldwide contingent business interruption insurance for certain major clients and this creates the principal exposure to catastrophes in South-East Asia. Contingent business interruption arises where an event (e.g. natural catastrophe or fire) leads to a manufacturer in the location affected by the event being unable to supply a manufacturer in another location. Therefore, the business of the second manufacturer is interrupted and they may submit a claim to their contingent business interruption insurer. It is problematic to model this exposure as the physical locations of exposures which may lead to the disruption of supply chains are difficult to identify. Historically, the losses arising from this exposure have largely been recoverable from reinsurers although it is recognised that the Company has some exposures which have less reinsurance protection.

The Company also writes long tailed Liability business where claims may be reported and settled many years after the business was underwritten. This exposure is the main driver of reserve risk, being the risk of adverse claims development from business already underwritten. In particular, the Company writes Employers Liability business which includes exposure to industrial disease claims. Industrial disease claims can arise if the employees of an insured party, such as a manufacturer, suffer from a disease arising as a result of their employment by the insured party. Some diseases can take over twenty years to manifest themselves and therefore the delay in claims being reported to the insurer can be very lengthy. The Company includes explicit reserves for industrial disease claims in the Technical Provisions based on discussions between the Actuarial Function and the Claims Function.

During 2015 and 2016 the Company restructured its reinsurance programme to reduce premium risk across all classes of business. In particular, the impact of future large and catastrophic property and cargo losses has been reduced by purchasing a lower level of excess of loss reinsurance protection. The long tailed Liability business has been heavily reinsured since 1 July 2015.

All of the new business written from 1 April 2019 in CIS countries for non-Japanese clients and the majority written for Japanese clients is ceded to reinsurers. This business therefore has a negligible effect on premium or reserve risk. Similarly all of the new business written from 1 January 2020 through new delegated underwriting authorities and the Company's new membership of the GAUM US pool is ceded to reinsurers. It too therefore has negligible effect on premium and reserve risk. Other than the reinsurance arranged for this new business there were no significant changes in the reinsurance programme in either 2019 or 2020.

The Company has exposure to cyber risk. This arises from both affirmative cover but also silent exposures which are harder to identify and quantify. The Company's cyber risk exposure is mitigated through the use of annual aggregate limits for individual policies, various exclusions, and reinsurance. Notwithstanding this, the Company recognises that this is an evolving risk and continues to monitor market developments and best practice.



The Company has examined its exposure to the Covid-19 pandemic. The event is recognised as a “major development” per Article 54(1) of the Solvency II Directive. In the event of claims arising, individual policies are examined in detail and legal advice taken as necessary. The Company will fulfil all its obligations as an insurer; however, based on analysis and legal opinions received to date, it is expected that in most instances, losses due to the pandemic are not covered by the Company’s policies.

The Company receives significant reinsurance commissions from business which is written to service MSIJ’s clients’ global requirements. The amount of reinsurance commission income available to the Company is therefore dependent on these global negotiations and therefore not entirely within its control.

The retained underwriting risk is managed through the monitoring of known and potential future geographical accumulations, catastrophe modelling performed by the Company’s reinsurance broker, and monitoring of retained exposures against risk appetites.

Assessment of Underwriting Risk

The following measures are used to assess underwriting risk:

- The SCR for underwriting risk is calculated using the Standard Formula.
- The Company’s exposure to European natural catastrophes is modelled each year.
- Risk appetite statements are set and actual performance monitored against these statements.
- The Company’s risk register considers underwriting risk and the associated controls used to mitigate this risk. The risks and controls are assessed and reviewed with the Risk Management Function every quarter.
- The Actuarial Function estimates both claim reserves calculated under UK GAAP and Technical Provisions calculated under Solvency II regulations each quarter. Draft estimates are discussed with senior Underwriting, Claims, Reinsurance and Finance staff for the purposes of providing and gaining feedback. The proposed UK GAAP claim reserves and Solvency II Technical Provisions are reviewed by and subject to the approval of the Reserving Committee.
- Underwriting risk is assessed through consideration of various sensitivity tests and stress tests applied to each of the key areas of uncertainty such as latent industrial disease claims and the effect of Covid-19.

Stress and Scenario Analysis

The Company performs stress tests which consider the impact of catastrophes and pandemics, total policy limit losses on large individual risks, business plan loss ratio inadequacy, and reserve inadequacy. Certain scenarios combine the impact of a catastrophe leading to a loss equal to the total policy limit with a dispute with or default of the largest reinsurer outside the MS&AD group. In only one scenario is the loss of sufficient magnitude to significantly erode the margin of Own Funds over the SCR.

The conclusion of the stress and scenario analysis is that the Company’s reinsurance programme significantly mitigates underwriting risk. Therefore, the greatest impact would be if the reinsurance programme were to fail. Given the company’s reinsurers have strong (A- or above) credit ratings, such failure was considered to be more likely as a result of a reinsurance dispute rather than a default. While the impact of the Covid-19 pandemic on the insurance and reinsurance industry has not so far resulted in increased incidence of reinsurer default in the market as a whole, it nevertheless remains uncertain and could be affected by legal rulings on claims currently in progress. This increases the risk of reinsurers defaulting as well as disputing claims.

C.2 Market risk

Material Market Risks

the majority of the Company’s investment portfolio has no exposure to investment market risk. The corporate bond portfolio comprises only bank Commercial Paper with a term of no more than a year which will be held to maturity. As such, it is valued at cost plus time apportioned income, and unlike other types of corporate or government bonds, its value is not prone to fluctuate due to movements in the wider bond markets. Similarly holdings in money market funds, bank term deposits and operational cash balances, are not prone to fluctuation in value due to developments in wider investment markets. From the first quarter of 2020 the Company began investing in a fund regulated under the Undertakings for the Collective Investment in Transferable Securities (“UCITS”) regulatory framework with exposure to market risk to achieve a marginal



increase in yield. As at 31 December 2020 the value of this investment was £20,228k representing 15% of the total investment portfolio. The fund experienced volatility during the market turbulence caused by the outbreak of the Covid-19 pandemic. To mitigate market risk the volatility of the fund is a limiting factor in the calculation of the maximum amount that can be invested in it at any given time.

The Company mitigates market risk by:

- setting limits on the duration of bonds such that no individual bond duration exceeds 10 years and the average duration of all bonds does not exceed 3 years,
- setting limits on the maximum amount that can be invested in assets with exposure to market risk by reference to their volatility,
- imposing minimum credit quality requirements on investment asset classes and on the portfolio as a whole, and
- setting limits on the amount that can be invested with any one counterparty across all types of investment such that:
 - the amount invested with any one counterparty cannot exceed 5% of the total value of investment assets unless otherwise agreed by the Finance Committee and then only up to a maximum of 10% of the total value of investment assets, and
 - the combined amount invested with counterparties individually holding more than 5% of the total value of investment assets cannot exceed 40% of the total value of investment assets.

The Company regularly monitors the foreign exchange market risk arising from differences in the value of its foreign currency assets and liabilities. Where differences are detected in excess of the tolerances set in the associated risk appetite, they are reduced by executing the necessary foreign exchange trades.

The Company's investment assets have been invested in accordance with the 'prudent person principle' set out in Article 132 of Directive 2009/138/EC as discussed previously in section B.3 ("Risk management system including the Own Risk and Solvency Assessment").

Assessment of Market Risks

The following measures are used to assess Market Risk:

- The SCR for market risk is calculated using the Standard Formula.
- Risk appetite statements are set and actual performance and developments are compared to these statements. For example, the actual percentage of assets with a current credit quality rating of less than A- is compared to the risk appetite for such percentage.
- The Company's risk register considers market risk and the associated controls used to mitigate this risk. The risks and controls are assessed and reviewed with the Risk Management Function each quarter.

Stress and Scenario Analysis

The Company considers stress tests which:

- i) combine the impact of the widening of credit spreads (Market Risk) and the failure of the largest investment counterparty (Credit Risk), and
- ii) apply the downside volatility experienced by the UCITS fund following the outbreak of the Covid-19 pandemic to the value of the holding in the fund at the time of the test.

The losses under these scenarios are not only lower than the Company's Own Funds of £74,967k at 31 December 2020, but also lower than the SCR of £45,094k.

C.3 Credit risk

Material Credit Risks

The Company relies heavily on reinsurance. A significant proportion of the premium paid by insured parties to the Company is paid to reinsurers. Consequently, the Company can recover a significant proportion of the claims it pays to insured parties from its reinsurers. The Company is thereby exposed to the risk that its reinsurers are either unable to pay due to financial difficulties or are unwilling to pay due to a dispute with the Company. For example, disputes can arise with reinsurers where there is a difference of opinion regarding whether certain types of claims are excluded from the reinsurance contract. A significant proportion of the



Company's reinsurance protection is provided by MSIJ, the Company's parent company, with which the risk of dispute is believed to be less than with other reinsurers.

At 31 December 2020 approximately 77% (£100,724k) of the Company's investment assets were invested in bank term deposits, holdings in money market funds, and operational cash balances. A term deposit is a cash investment held at a financial institution for an agreed rate of interest over a fixed period of time. Money market funds are comprised of short-term securities which themselves comprise high-quality, liquid debt and monetary instruments. The Company is exposed to the risk of default by the counterparty to all these types of investment. A further 8% (£9,975k) of the Company's investment assets are invested in bank Commercial Paper which is also exposed to the risk of default if the issuer is rendered insolvent and therefore unable to pay the amount due. The remaining 15% is invested in a UCITS fund comprised of a large number of investment positions in various asset types. The Company is exposed to the risk of default by the counterparties to these investment positions.

The Company mitigates credit risk by:

- setting limits on the exposure to individual reinsurers,
- requiring that the wording for facultative reinsurance purchased for individual policies to be consistent with the original wording to minimise the potential for dispute,
- imposing minimum credit quality requirements for reinsurers, financial institutions and other investment counterparties for each asset class,
- imposing minimum credit quality requirements on the investment portfolio as a whole, and
- setting limits on the amount that can be invested with any one counterparty across all types of investment such that:
 - the amount invested with any one counterparty cannot exceed 5% of the total value of investment assets unless otherwise agreed by the Finance Committee and then only up to a maximum of 10% of the total value of investment assets, and
 - the combined amount invested with counterparties individually holding more than 5% of the total value of investment assets cannot exceed 40% of the total value of investment assets.

The impact of the Covid-19 pandemic on the insurance and reinsurance industry remains uncertain and could be affected by legal rulings on claims currently in progress. This increases the risk of reinsurers defaulting or disputing claims and rendering the Company unable to make reinsurance recoveries. This in turn could have a significant effect on the Company's financial position.

Similarly, the impact of the Covid-19 pandemic on investment counterparties remains uncertain and is dependent on the broader macro-economic consequences of the pandemic. If these were to render any of the Company's investment counterparties insolvent, this could cause the Company to incur a loss by way of devaluation of its investment holdings and could have a significant effect on the Company's financial position.

The Company's investment assets have been invested in accordance with the 'prudent person principle' set out in article 132 of Directive 2009/138/EC as discussed previously in section B.3 ("Risk management system including the Own Risk and Solvency Assessment").

Assessment of Credit Risks

The following measures are used to assess credit risk:

- The SCR for Counterparty Default Risk is calculated using the Standard Formula.
- Risk appetite statements are set and actual performance and developments are compared to these statements. For example, the percentage of total investment assets held with any individual investment counterparty is compared to the risk appetite for such percentage.
- The Company's risk register considers credit risk and the associated controls used to mitigate this risk. The risks and controls are assessed and reviewed with the Risk Management Function each quarter.
- The Company relies heavily on reinsurance and monitors its exposure on a monthly basis. For each individual reinsurer the estimated premium income, limits, outstanding claims and credit rating are monitored. In addition, the Company has a number of risk appetites regarding its exposure to reinsurers. In particular, the Company monitors its largest exposure to individual reinsurers on single risks. Exposures greater than £30m are monitored on a monthly basis and are reported to each Underwriting and Operations Committee. The largest exposure is within risk appetite.



Stress and Scenario Analysis

As discussed in section C.1 (“Underwriting Risk”) the Company performs stress tests which consider the impact of catastrophe events, losses from large individual risks up to the total limit covered by the policy, higher loss ratios than included in the business plan, and reserve inadequacy. Certain scenarios combine the impact of a catastrophe and/or total policy limit loss with a dispute with or default of the largest reinsurer outside the MS&AD group.

The conclusion of the stress and scenario analysis is that the Company’s reinsurance programme significantly mitigates its risks. Therefore, the greatest impact would be if the reinsurance programme were to fail to respond. Given the Company’s reinsurers have strong (A- or above) credit ratings, such failure is considered to be more likely as a result of a reinsurance dispute rather than a default. However, as noted above, the consequences of the Covid-19 pandemic on reinsurers remain uncertain and may be severe, in which case part of the Company’s reinsurance programme may fail due to reinsurer default.

Currently, the largest exposure to an individual reinsurer on a single risk (excluding MS&AD group companies) amounts to approximately 79% of the Own Funds.

C.4 Liquidity risk

Material Liquidity Risks

The most significant liquidity risk is that the Company may be required to pay a very large individual claim or a very large amount arising from an event following which claims are payable to multiple insured parties such as a natural catastrophe, and having insufficient liquid assets to do so. As discussed previously the Company relies heavily on reinsurance. Therefore, it is likely that a proportion of these claim payments would be recoverable from reinsurers.

The Company mitigates liquidity risk by:

- Including “cash call clauses” in all reinsurance contracts (with the exception of excess of loss reinsurance contracts) which allow the Company to make recoveries from reinsurers before paying claims to insured parties, and
- Maintaining sufficient liquid assets to pay claims.

The liquid assets maintained are greater than the maximum amount payable on a single claim net of reinsurance recoveries other than recoveries due under excess of loss reinsurance.

Assessment of Liquidity Risks

The following measures are used to assess liquidity risk:

- Risk appetite statements are set and actual performance and developments are compared to these statements. For example, the amount of investment assets kept in liquid form is compared to the amount set out in the risk appetite statement.
- The Company’s risk register considers liquidity risk and the associated controls used to mitigate this risk. The risks and controls are assessed and reviewed with the Risk Management Function each quarter.
- The Company’s risk appetite is that at least £10m be held in liquid assets at all times. This risk appetite is monitored on a monthly basis and reported to the Finance Committee.

Stress and Scenario Analysis

The Company considers a stress test which would require the greatest use of funds at short notice. This is considered to be a single large Property claim triggering the maximum amount recoverable from the Company’s excess of loss reinsurance programme and that recovery not being received in advance of settlement of the claim.

The result of this scenario is that the liquid assets held would be sufficient to settle the claim prior to receipt of the excess of loss reinsurance recovery.



Expected Profit included in the Future Premium

The expected profit included in the future premium at 31 December 2020 is £1,809k. This is the expected premium less the associated claims and expenses after reinsurance.

The table below shows the expected profit included in the future premium split by line of business and analysed between incepted and unaccepted policies:

Solvency II Line of Business	Total Profit £k	Incepted Profit £k	Unaccepted Profit £k
General Liability Insurance	85	1	84
Fire and Other Damage to Property Insurance	1,465	818	647
Marine, Aviation and Transport Insurance	33	9	24
Medical Expenses	0	0	0
Miscellaneous Financial Loss	0	0	0
Credit & Suretyship	225	78	147
Grand Total	1,809	906	903

C.5 Operational risk

Material Operational Risks

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people, or systems or from external events. This includes the ineffective management of outsourcing, non-compliance with legislation and/or regulation, ineffective or inadequate governance, failure to manage any litigation or other legal proceedings and business disruption arising from fire, terrorist attack, major IT systems failure etc.

The Company considers its most material Operational Risks are key person risk, business disruption, and IT systems failure. The Company employs a relatively small number of staff and is therefore exposed to key person risk. Succession plans have been developed for key individuals to mitigate this risk. The Company has also developed a business continuity plan to mitigate the risk of business disruption and IT systems failure.

With the outbreak of the Covid-19 pandemic and the UK Government's instructions to work from home, this business continuity plan was put into action and has enabled the Company to continue its operations with minimal disruption.

Assessment of Operational Risks

The following measures are used to assess Operational Risk:

- SCR for Operational Risk is calculated using the Standard Formula.
- The Company's risk register considers Operational risk and the associated controls used to mitigate this risk. The risks and controls are assessed and reviewed with the Risk Management Function each quarter.

Stress and Scenario Analysis

The Company considers the impact of a number of scenarios. These include:

- Inappropriate strategy leading to loss of profit
- Non-compliance with legislation and/or regulation
- Business disruption
- IT failure including failure arising from a cyber attack
- Failure to collect large individual debtors
- Key person risks
- Inappropriate or inadequate governance
- Failure to manage litigation or other legal proceedings effectively
- Ineffective management of outsourcing
- Inadequate exposure management
- Sanctions risk



- Incorrectly ceding a risk or multiple risks to our reinsurance treaties leading to a shortfall in the recoveries in the event of a claim.

The results for each of these scenarios are not only lower than the Company's Own Funds of £45,094k at 31 December 2020, but also lower than the SCR of £74,967k.

C.6 Other material risks

The Company is part of the MS&AD group and is therefore exposed to Group Risk. The Company relies on its immediate parent, MSIJ to provide capital and other support to meet its strategy. In addition, the Company also shares certain services with MS ACS, including IT services. As a result of these interdependencies, the Company could be adversely affected by the following:

- Withdrawal of support by MSIJ
- Lack of MSIJ strategic planning
- A downgrade of MS&AD's credit ratings
- Contagion coming from the activities and reputation of another MS&AD company

The likelihood of MSIJ withdrawing support from the Company is considered to be very remote and can only be conceived if MSIJ cannot continue to provide support (as opposed to being unwilling to provide support). The Company's Executive Directors maintain close communication with MSIJ to ensure the Company's strategy is aligned to the group strategy. MSIJ's International Department representatives are based in the Company's office to assist in this communication. The Company's management also liaise with MS ACS's senior management to ensure shared services operate smoothly.

Assessment of Group Risk

The following measure is used to assess Group Risk:

- The Company's risk register considers Group Risk and the associated controls used to mitigate this risk. The risks and controls are assessed and reviewed with the Risk Management Function each quarter.

Stress and Scenario Analysis

The Company considers the impact of a number of scenarios including:

- Severe contagion arising from the activities of other MS&AD companies leading to loss of business and profit
- Ineffective management of the services provided by MS ACS leading to severe losses

The results for each of these scenarios are not only lower than the Company's Own Funds of £74,967k at 31 December 2020, but also lower than the SCR of £45,094k.

C.7 Any other information

There is no other material information to report.



D. Valuation for Solvency Purposes

D.1 Assets

Valuation of assets for Solvency Purposes

Investments (other than assets held for index-linked and unit-linked contracts)

i) Corporate Bonds

All the Corporate Bonds are bank Commercial Paper and have a term of a year or less. They are held to maturity and valued at cost plus the time apportioned income.

ii) Collective Investments Undertakings

Investments in collective investment undertakings comprise investments in money market funds and another UCITS fund held to achieve a marginal increase in yield. The money market funds are valued on a stable net asset value basis as published for each of the individual funds by their managers. They are independently validated and re-priced by the fund manager daily. The published values are taken to be their fair value on the grounds that they can be readily realised for this value at short notice. The UCITS fund is valued by reference to a net asset value per unit which is calculated at each daily valuation point by the administrator of the fund. This value is taken to be the fair value of the fund on the grounds that it can be readily realised for this value at short notice.

Partial realisation of the money market funds regularly takes place to meet the Company's operational cash requirements.

iii) Deposits other than cash equivalents

Deposits other than cash equivalents comprise term deposits with banks. Their fair value is calculated as the amount deposited plus accrued income. Accrued income is calculated on a straight line basis over the period to which it relates.

Insurance and intermediaries receivables

Insurance and intermediaries receivables comprise amounts due to the Company from brokers and clients relating to policies that were past due at the end of the reporting period. Bad debt provisions are raised against those amounts which are deemed unlikely to be received. These amounts therefore have zero value for solvency purposes. All other amounts are expected to be received in full and hence are reported at fair value which is taken to be the amount due from the brokers and clients. They are expected to be collected within 15 months and hence are not discounted for the time value of money.

Reinsurance receivables

Reinsurance receivables comprise amounts due for settlement to the Company from its reinsurers in connection with reinsurance claim recoveries. Bad debt provisions are raised against amounts due from reinsurers which have ceased trading or which have weak credit ratings or which management believe may experience difficulties in making payment. These amounts therefore have no value for solvency purposes. All other amounts are valued at the amount due from the reinsurers. They are expected to be collected within 12 months and hence are not discounted for the time value of money.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and current bank accounts which are subject to an insignificant risk of change in fair value.

Reinsurance recoverables

Reinsurance recoverables represent that portion of the Technical Provisions that are recoverable from reinsurers. The calculation and valuation of these amounts is described in section D.2 ("Technical Provisions").



Differences in valuation of assets under UK GAAP and Solvency II regulations

The valuation of assets under UK GAAP and Solvency II regulations is set out in the following table:

UK GAAP description	UK GAAP valuation £k	Reclassification £k	Revaluation £k	Solvency II valuation £k	Solvency II description
<i>Financial investments</i>					<i>Investments</i>
<i>Debt securities and other fixed income securities</i>					<i>Bonds</i>
1) Corporate bonds	9,975			9,975	Corporate Bonds
2) Holdings in collective investment schemes	56,021			56,021	Collective Investments Undertakings
3) Deposits with credit institutions	61,653	266		61,919	Deposits other than cash equivalents
<i>Total Financial investments</i>	<u>127,649</u>			<u>127,915</u>	
4) Reinsurers' share of technical provisions	270,953	(64,918)	(17,225)	188,810	Reinsurance recoverables
5) Debtors arising out of direct insurance operations	42,488	(35,478)		7,009	Insurance and intermediaries receivables
6) Debtors arising out of reinsurance operations	15,591			15,591	Reinsurance receivables
7) Other debtors	175		(175)	-	Receivables (trade, not insurance) + Any other assets, not elsewhere shown
8) Tangible assets	85		(85)	-	Tangible assets
9) Intangible assets	34		(34)	-	Intangible assets
10) Cash at bank and in hand	3,278			3,278	Cash and cash equivalents
11) Deferred acquisition costs	6,213		(6,213)	-	Deferred acquisition costs
12) Other prepayments and accrued income	474	(266)	(208)	-	Any other assets, not elsewhere shown
	<u>466,941</u>	<u>(100,397)</u>	<u>(23,940)</u>	<u>342,604</u>	

The reasons for the reclassifications and revaluations set out in the table above are as follows:

	Asset	UK GAAP valuation £k	Solvency II valuation £k	Reason for differences
1)	<i>Corporate bonds</i>	9,975	9,975	"Corporate Bonds" are valued on the same basis under both Solvency II regulations and UK GAAP.
2)	<i>Holdings in collective investment schemes</i>	56,021	56,021	Under Solvency II regulations "Holdings in collective investment schemes" are valued inclusive of accrued investment income. Under UK GAAP accrued investment income is separately classified as "Other prepayments and accrued income". Accrued investment income at 31 December 2020 was nil.
3)	<i>Deposits with credit institutions</i>	61,653	61,919	Under Solvency II regulations "Deposits with credit institutions" are valued inclusive of £266k of accrued investment income. Under UK GAAP accrued investment income is separately classified as "Other prepayments and accrued income".
4)	<i>Reinsurers' share of technical provisions</i>	270,953	188,810	"Reinsurers' share of Technical Provisions" under UK GAAP is replaced by "Reinsurance recoverables" under Solvency II regulations. "Reinsurance recoverables" are calculated in accordance with Solvency II regulations, and take into account both reinsurance premiums payable and reinsurance claims receivable.



	Asset	UK GAAP valuation £k	Solvency II valuation £k	Reason for differences
5)	<i>Debtors arising out of direct insurance operations</i>	42,488	7,009	Under Solvency II regulations only those “Debtors arising out of direct insurance operations” that are past due but nevertheless expected to be received are classified here. Receivables that are not past due are included in the calculation of the Technical Provisions. Under UK GAAP all amounts due in connection with inward insurance operations and expected to be received are classified here regardless of whether or not they are past due.
6)	<i>Debtors arising out of reinsurance operations</i>	15,591	15,591	“Debtors arising out of reinsurance operations” are valued on the same basis under both Solvency II regulations and UK GAAP.
7)	<i>Other debtors</i>	175	-	Other debtors under UK GAAP have nil value under Solvency II regulations.
8)	<i>Tangible assets</i>	85	-	“Tangible assets” are not recognised under Solvency II regulations as they cannot be readily converted to cash for settlement of liabilities, and hence have nil value. Under UK GAAP they represent depreciated amounts expended on fixtures and fittings.
8)	<i>Intangible assets</i>	34	-	“Intangible assets” are not recognised under Solvency II regulations as they cannot be readily converted to cash for settlement of liabilities, and hence have nil value. Under UK GAAP they represent depreciated amounts expended on software development.
9)	<i>Cash at bank and in hand</i>	3,278	3,278	“Cash at bank and in hand” is valued on the same basis under both Solvency II regulations and UK GAAP.
10)	<i>Deferred acquisition costs</i>	6,213	-	“Deferred acquisition costs” are not recognised under Solvency II regulations as they do not represent future cash inflows to the Company and therefore do not represent resources available to the Company for settlement of liabilities as they fall due.
11)	<i>Other prepayments and accrued income</i>	474	-	Under Solvency II regulations accrued investment income is included in the value of investments. Under UK GAAP it is separately classified in “Other prepayments and accrued income”. Under Solvency II regulations prepayments and other trade debtors have nil value.
	<i>Deferred tax asset</i>	-	-	A deferred tax asset of £1,597k has not been recognised under either Solvency II regulations or UK GAAP due to the uncertainty as to whether the Company will generate sufficient taxable profits in the future to use the deferred tax asset.
	TOTAL	466,941	342,604	



D.2 Technical provisions

The Company's Technical Provisions have been calculated in accordance with articles 75 to 86 of the Solvency II directive. The Technical Provisions comprise the best estimate plus the risk margin.

The best estimate is equivalent to the sum of the estimated future cash inflows and cash outflows relating to the run off of all insurance liabilities (including premiums receivable, and claims and expenses payable) from all the earned business plus business to which the company is legally obliged at 31 December 2020.

The risk margin represents the cost of transferring the obligations to a third party and is calculated by considering the cost of holding capital to support the run off of the Technical Provisions over their lifetime.

Standard actuarial methods have been used to calculate the best estimate. These include the chain ladder method, Bornhuetter-Ferguson method and the Initial Expected Loss Ratio method. These methods are commonly used in non-life insurance to estimate premium and claim amounts.

The Company does not apply the matching adjustment referred to in Article 77b of Directive 2009/138/EC.

The Company does not use the volatility adjustment referred to in Article 77d of Directive 2009/138/EC.

The Company does not apply the transitional risk-free interest rate-term structure referred to Article 308c of Directive 2009/138/EC.

The Company does not apply the transitional deduction referred to in Article 308d of Directive 2009/138/EC.

Technical Provisions Split by Line of Business

There are no material changes in the methodology and assumptions used to calculate the Technical Provisions as at 31 December 2020 compared to 31 December 2019.

The total Technical Provisions as at 31 December 2020 are £68,408k comprising a best estimate of £54,267k and a risk margin of £14,141k. The table below shows the Technical Provisions split between the material lines of business.

Solvency II Line of Business	Gross Best Estimate £k (1)	Reinsurance Recoveries £k (2)	Net Best Estimate £k (3) = (1) + (2)	Risk Margin £k (4)	Technical Provisions £k (5) = (3) + (4)
General Liability Insurance	102,637	(84,661)	17,976	4,768	22,745
Fire and Other Damage to Property Insurance	86,213	(68,055)	18,157	4,731	22,888
Marine, Aviation and Transport Insurance	39,689	(28,393)	11,296	2,874	14,170
Other	14,538	(7,701)	6,837	1,767	8,605
Grand Total	243,077	(188,810)	54,267	14,141	68,408

1. Gross Best Estimate – principally comprises gross claims payable to the Company's insureds less gross premiums payable by insureds to the Company.
2. Reinsurance Recoveries - principally comprises reinsurance claims recoveries from reinsurers (from gross claims payable) less reinsurance premiums payable by the Company to reinsurers.
3. Net Best Estimate = Gross Best Estimate less Reinsurance Recoveries
4. Risk Margin – comprises the cost of transferring the obligations to a third party
5. Technical Provisions = Net Best Estimate plus Risk Margin

As can be seen in the table above each line of business has material reinsurance protection. A significant proportion of this reinsurance protection is provided by the Company's parent company MSIJ. Some reinsurance protection is specific and is purchased for individual policies ("facultative reinsurance"). Other reinsurance is purchased to protect all policies within a line of business ("treaty reinsurance"). A significant proportion of the General Liability and Fire and Other Damage to Property reinsurance claim recoveries are anticipated facultative recoveries arising from a small number of large claims. Most of the Marine, Aviation and Transport business written is protected by treaty reinsurance such that a large proportion of the gross claims payable are recoverable from reinsurers.



Changes in Technical Provisions

The table below shows the change in the SII Technical Provisions during 2020.

Net Technical Provisions (£m)	31 December 2020 £k	31 December 2019 £k	Change
Outstanding Claims	1,954	2,747	(794)
Earned IBNR	13,178	12,487	691
Claims Reserves - Earned Business	15,132	15,235	(103)
Unearned IBNR	1,566	1,682	(115)
Unincepted IBNR	501	439	62
Claims Reserves - Future Business	2,067	2,120	(54)
Premium Debtors	(35,478)	(25,721)	(9,757)
RI Creditors	64,918	43,429	21,489
Net Premium Creditors	29,440	17,708	11,732
Unwritten Future Premium	(1,995)	(1,178)	(817)
Unincepted Future Premium	(1,404)	(972)	(432)
Expected Future Premium Payments	26,041	15,558	10,484
Events Not In Data	670	636	34
Expenses	7,185	7,089	96
Bad Debt Reserve	3,339	1,879	1,460
Total Other	11,194	9,604	1,589
Undiscounted Best Estimate	54,434	42,517	11,917
Impact of Discounting	(167)	(788)	621
Discounted Best Estimate	54,267	41,729	12,538
Risk Margin	14,141	13,259	882
Net Technical Provisions	68,408	54,988	13,419

As shown in the table above the Solvency II Technical Provisions have increased by £13,419k, over the year from 31 December 2019 to 31 December 2020 as discussed below.

£10.5m increase in Expected Net Future Premium Payments. The main driver of this is the £11.7m increase in the net premium creditors. This arises from a £9.8m increase in the premium debtors and a £21.5m increase in the reinsurance creditors.

£1.5m increase in Bad Debt Reserve. This is a factor of the increase in the reinsurers' share of gross claim reserves.

£0.8m increase in the Risk Margin. The main driver of this is the increase in the Solvency Capital Requirement ("SCR") which is a key input into this calculation. The SCR has increased from £38,870k at 31 December 2019 to £45,094k at 31 December 2020.

Uncertainty

The uncertainty within Technical Provisions arises from the uncertainty regarding:

- future events
- the settlement of known claims
- delays in reporting of claims
- the methodologies and assumptions used to estimate the Technical Provisions.

In particular, the General Liability business (Liability and Employers Liability) is long tailed and therefore claims maybe reported and settled many years after the policies were written. This is particularly the case for Employers Liability Industrial Disease claims which can be reported over 20 years after the policies were written. The best estimate Technical Provisions include an explicit allowance for such Industrial Disease claims but this is subject to significant uncertainty.

The impact of the Covid-19 virus on the insurance and reinsurance industry remains uncertain and could be affected by legal rulings on claims currently in progress. This increases the risk of reinsurers defaulting or



disputing claims which could lead to the Company being unable to make the reinsurance recoveries anticipated within the Technical Provisions.

Differences in valuation of Technical Provisions under Solvency II regulations and UK GAAP

With regard to the actuarial techniques deployed, the bases, methods and main assumptions used for the valuation of Technical Provisions under Solvency II regulations are essentially the same as under UK GAAP. The difference in valuation arises from the following differences in approach between Solvency II regulations and UK GAAP:

- 1) Under Solvency II regulations, insurance and intermediaries receivables that are not past due are included in the Technical Provisions. Under UK GAAP they are included with all other insurance and intermediaries receivables and are classified separately from Technical Provisions.

Under Solvency II regulations, reinsurance payables are included in the Technical Provisions. Under UK GAAP they are classified separately from Technical Provisions.

- 2) As prescribed by Solvency II regulations, any margin above the best estimate of future liabilities that may have been included under UK GAAP must be excluded.
- 3) As prescribed by Solvency II regulations, the Solvency II Technical Provisions take account of:
 - future profit from policies that have been written at the reporting date but the premium from which has not been recognised as earned, and
 - future profit from policies that are legally bound but have not been written or have not incepted at the reporting date.

Neither of these factors are taken into account in calculating the Technical Provisions under UK GAAP.

- 4) As prescribed by Solvency II regulations, the Solvency II Technical Provisions take account of all the operational expenses (including claim handling expenses) that would be incurred over the period required to fully discharge the insurance obligations represented by the Technical Provisions.

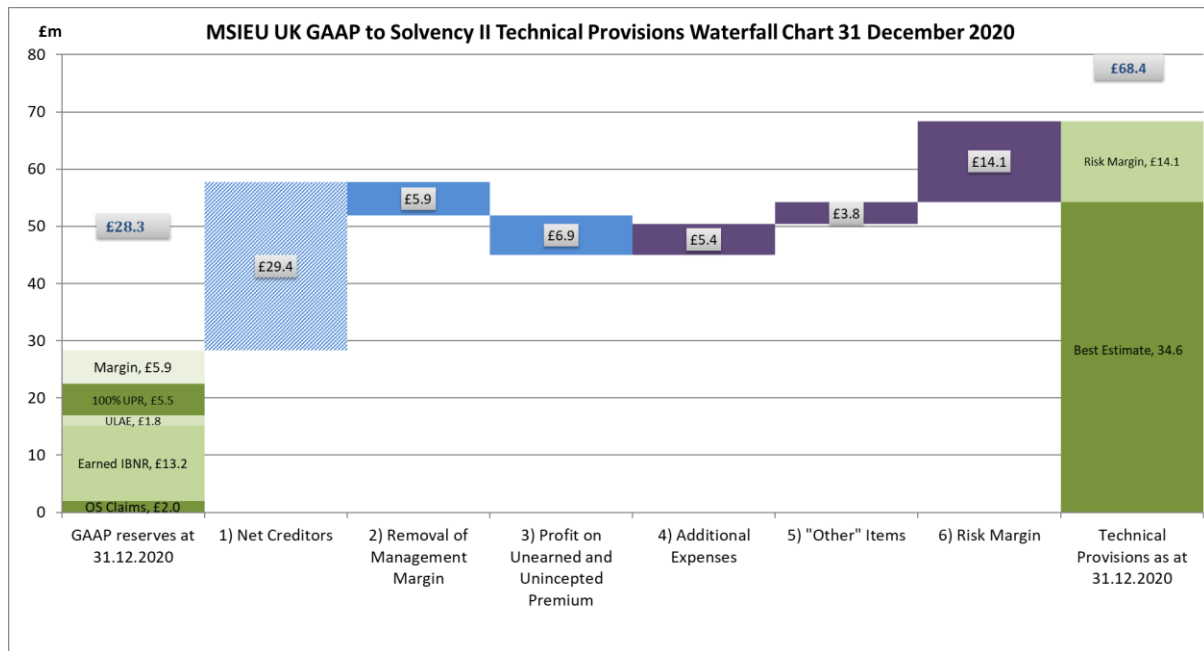
Under UK GAAP only the claim handling expenses that would be incurred over the period required to fully discharge the insurance obligations represented by the Technical Provisions are taken into account in calculating the Technical Provisions.

- 5) As prescribed by Solvency II regulations, the Solvency II Technical Provisions take account of:
 - Events Not In Data ("ENIDs") such as potential new sources of claims, an example being claims arising from new as yet unidentified diseases, and
 - the time value of money with regard to the future cashflows represented by the Technical Provisions by applying the discount rates prescribed by the European Insurance and Occupational Pensions Authority to calculate their present value.

Neither of these factors are taken into account in calculating the Technical Provisions under UK GAAP.

- 6) As prescribed by Solvency II regulations, a risk margin is included in the Technical Provisions which represents the cost of transferring the obligations to a third party and is calculated by considering the cost of holding capital to support the run-off of the Technical Provisions over their lifetime. No such margin is required under UK GAAP.

The chart below shows the value of each of these adjustments and sets out the items included in the Technical Provisions under Solvency II regulations but separately classified under UK GAAP and the effect of the revaluation due to the differences in approach described above:



D.3 Other liabilities

Valuation of liabilities for Solvency Purposes

Insurance & intermediaries payables

Insurance & intermediaries payables comprise amounts due to policyholders and intermediaries in connection with i) claims agreed for settlement but not yet settled at the end of the reporting period, and ii) premiums payable to coinsurers. They are expected to be paid in full within twelve months of the reporting date and are valued at the amount payable.

Payables (trade, not insurance)

Payables (trade, not insurance) comprise amounts due to parties other than the Company's policyholders. These are primarily i) tax payable, ii) amounts due to the Company's staff, and iii) amounts due to other group companies for the Company's share of the cost of services supplied by those companies. They are expected to be paid in full within twelve months of the reporting date and are valued at the amount payable.

Any other liabilities, not elsewhere shown

Other liabilities comprise amounts accrued for expenses that have not yet been invoiced and are therefore not due for payment at the end of the reporting period. They are, however, expected to both become due for payment and be paid in full within twelve months of the reporting date, and are valued at the amount accrued.

Differences in valuation of other liabilities under Solvency II regulations and UK GAAP

The valuation of liabilities under UK GAAP and Solvency II regulations is set out in the following table:

UK GAAP description	UK GAAP valuation £k	Reclassification £k	Revaluation £k	Solvency II valuation £k	Solvency II description
1) Technical provisions	295,234	(35,478)	(2,538)	257,218	Technical provisions - non-life
2) Creditors arising out of direct insurance operations	1,381			1,381	Insurance & intermediaries payables
3) Creditors arising out of reinsurance operations	64,918	(64,918)		-	Reinsurance payables
4) Other creditors including taxation and social security	3,613	1,401		5,014	Payables (trade, not insurance)
5) Accruals	5,426	(1,401)		4,024	Any other liabilities, not elsewhere shown
6) Deferred reinsurance commissions	10,260		(10,260)	-	Other technical provisions
	<u>380,831</u>	<u>(100,397)</u>	<u>(12,797)</u>	<u>267,636</u>	



The reasons for the reclassifications and revaluations set out in the table above are as follows:

	Liability	UK GAAP valuation £k	Solvency II valuation £k	Reason for differences
1)	<i>Technical provisions</i>	295,234	257,218	"Technical Provisions" under UK GAAP are replaced by "Technical Provisions" calculated in accordance with Solvency II regulations, which take into account premiums receivable not past due as transferred from the Assets section of the balance sheet.
2)	<i>Creditors arising out of direct insurance operations</i>	1,381	1,381	"Creditors arising out of direct insurance operations" under UK GAAP are valued on the same basis as "Insurance & intermediaries payables" under Solvency II regulations.
3)	<i>Creditors arising out of reinsurance operations</i>	64,918	-	Under Solvency II regulations "Creditors arising out of reinsurance operations" are included in "Reinsurance recoverables" in the Assets section of the balance sheet. Under UK GAAP they are separately classified.
4)	<i>Other creditors including taxation and social security</i>	3,613	5,014	"Other creditors including taxation and social security" under UK GAAP are valued on the same basis as "Payables (trade, not insurance)" under Solvency II regulations. Items classified as "Accruals" under UK GAAP with a value of £1,401k are classified as "Payables (trade, not insurance)" under Solvency II regulations.
5)	<i>Accruals</i>	5,426	4,024	"Accruals" under UK GAAP are valued on the same basis as "Any other liabilities, not elsewhere shown" under Solvency II regulations. Items classified as "Accruals" under UK GAAP with a value of £1,401k are classified as "Payables (trade, not insurance)" under Solvency II regulations.
6)	<i>Deferred reinsurance commissions</i>	10,260	-	"Deferred reinsurance commissions" are not recognised under Solvency II regulations as they do not represent future cash outflows from the Company and therefore do not represent a reduction in the resources available to the Company for settlement of liabilities.
	TOTAL	380,831	267,636	

During the reporting period no changes were made to the recognition and valuation bases or to the estimates used.

Other than with regard to the Technical Provisions no assumptions or judgements have been made with regard to the future or other sources of uncertainty.

D.4 Alternative methods for valuation

The Company does not use alternative methods for valuation.



D.5 Any other information

The Company has no other material information to report with regard to its valuation of assets and liabilities for solvency purposes.



E. Capital Management

E.1 Own funds

Objectives, policies and processes for managing Own Funds

At all times the Company expects to hold a wide margin of Own Funds over its capital requirements, both with regard to current business and business planned to be written in the future. The current margin and the margin projected twelve months forward of Own Funds over capital requirements are calculated monthly. These margins and projections are reviewed by the Finance Committee and included in reports discussed at Board meetings. Projections of Own Funds and the corresponding margin over capital requirements over the three year business planning period are produced as part of the annual budgeting and business planning cycle. These projections are included in the budgeting and business planning reports to the Finance Committee and Board.

Subject to regulatory constraints, the appropriate level of the Company's share capital is determined by the Board in discussion with its current owner, MSIJ and by reference to the Company's Own Funds and capital requirements. Any proposed withdrawal of capital and consequent diminution in the margin of Own Funds over capital requirements is discussed with the PRA in advance.

Own Funds classified by tier

The Company's Own Funds comprise only ordinary share capital and a reconciliation reserve, and are all classified as Tier 1 unrestricted Own Funds on the grounds that in total they represent the amount available to fully absorb losses on a permanent going-concern basis and thereby accord with the definition set out in Article 93(1)(a) of Directive 2009/138/EC. There is no share premium account or any other form of capital or reserve.

The following table sets out the type and amount of each component of Own Funds at the end of the current and previous reporting periods:

	31 December 2020 £k	31 December 2019 £k
Issued and fully paid ordinary shares of £1 each	80,700	80,700
Reconciliation reserve	(5,733)	(9,159)
Total	<u>74,967</u>	<u>71,541</u>

The negative balance in the reconciliation reserve at 31 December 2020 and 31 December 2019 is calculated as the retained profits under UK GAAP at each balance sheet date less the difference between the valuation of net assets under UK GAAP and Own Funds under Solvency II regulations.

The change in the reconciliation reserve of £3,426k in the year to 31 December 2020 (and hence the equivalent change in Own Funds) arose from changes in the normal course of insurance business in the value of the Company's assets and liabilities as valued under Solvency II regulations. There were no other material changes over the reporting period.

Eligible amount of Own Funds to cover the Solvency Capital Requirement

Total available Own Funds to meet the Solvency Capital Requirement at 31 December 2020 are £74,967k (2019: £71,541k). All of these Own Funds are classified as Tier 1 unrestricted Own Funds and therefore all are eligible to meet the Solvency Capital Requirement of £45,094k (2019: £38,870k).

The ratio of eligible Own Funds to the Solvency Capital Requirement at 31 December 2020 is 166% (2019: 184%).

Eligible amount of Own Funds to cover the Minimum Capital Requirement

Total available Own Funds to meet the Minimum Capital Requirement at 31 December 2020 are £74,967k (2019: £71,541k). All of these Own Funds are classified as Tier 1 unrestricted Own Funds and therefore all are eligible to meet the Minimum Capital Requirement of £11,274k (2019: £9,718k).



The ratio of eligible Own Funds to the Minimum Capital Requirement at 31 December 2020 is 665% (2019: 736%).

There are no deductions from eligible Own Funds.

Difference between equity as shown in the financial statements and the excess of assets over liabilities as calculated for solvency purposes

Total equity at 31 December 2020 per the financial statements is £86,110k (2019: £82,470k). The excess of assets over liabilities at 31 December 2020 as calculated for solvency purposes is £74,967k (2019: £71,541k), which is equivalent to the value of the Own Funds. There are no differences between the ordinary share capital reported in the financial statements and that included in basic Own Funds. The difference of £11,143k (2019: £10,929k) between the excess of assets over liabilities as reported in the financial statements and as calculated for solvency purposes is due to differences between the valuation methods used under UK GAAP and those used under Solvency II rules.

These differences are listed in the following table:

	31 December 2020 £k	31 December 2019 £k
Equity per the financial statements (under UK GAAP)	86,110	82,470
<i>Remove:</i>		
UK GAAP Technical Provisions	24,281	23,906
Debtors included in Solvency II Technical Provisions	(35,478)	(25,721)
Creditors included in Solvency II Technical Provisions	64,918	43,429
Deferred acquisition costs	(6,213)	(2,966)
Deferred reinsurance commissions	10,260	6,221
Tangible assets	(85)	(110)
Intangible assets	(34)	(239)
Other debtors	(175)	(208)
Other prepayments and accrued income	(208)	(254)
<i>Include:</i>		
Solvency II Technical Provisions	(54,267)	(41,729)
Solvency II Risk Margin	(14,141)	(13,259)
Excess of assets over liabilities (= Own Funds) (under Solvency II rules)	<u>74,967</u>	<u>71,541</u>

E.2 Solvency Capital Requirement and Minimum Capital Requirement

The Company calculates its Solvency Capital Requirement and Minimum Capital Requirement using the Solvency II Standard Formula.

The Company is not using any undertaking-specific parameters in the calculation of the Standard Formula Solvency Capital Requirement pursuant to Article 104(7) of Directive 2009/138/EC.

No capital add-ons have been set by the Company's supervisor.

The Company has applied the following simplifications to the calculation of the Standard Formula Solvency Capital Requirement:

- Counterparty Default Risk - The Company has applied the simplification for calculating the counterparty default risk associated with reinsurance as permitted under Article 107 of the Delegated Acts. This derives a Gross Underwriting Risk SCR from which the Net Underwriting Risk SCR is deducted to



estimate the allowance for reinsurance in the SCR. This amount is then apportioned across the current reinsurance exposures in line with the outstanding amounts recoverable.

- Interest Rate Risk (part of Market Risk) - The asset duration has been directly input into the Interest Rate Risk SCR instead of calculating this part of the SCR from the cashflows arising from the assets included within the module.

The final Solvency Capital Requirement of £45,094k at 31 December 2020 is still subject to supervisory assessment. Analysis of the Solvency Capital Requirement by risk module is set out in the Quantitative Reporting Template S.25.01.21 included in Appendix 1. Overall, the Solvency Capital Requirement has increased by £6,224k (16.0%) since 31 December 2019.

The inputs into the Minimum Capital Requirement ("MCR") are the net written premium in the previous 12 months and the net best estimate Technical Provisions. The table below shows these inputs split by line of business.

Line of Business	Net Written Premium (Previous 12 months) £k	Net Best Estimate Technical Provisions £k
Medical Expenses	141	148
Marine, Aviation and Transportation	1,343	11,296
Fire & Other Damage to Property	1,286	18,157
General Liability	456	17,976
Credit and Suretyship	-	6,488
Miscellaneous Financial Loss	2	201
Total	3,228	54,267

The Linear MCR is calculated by multiplying the net written premium and the net best estimate Technical Provisions by factors prescribed for each line of business. The Linear MCR is calculated as £6,265k. However, the final MCR can be no greater than 45% of the SCR (£20,292k = 45% x £45,094k) and no lower than 25% of the SCR (£11,274k = 25% x £45,094k). Consequently, the final MCR is £11,274k (being 25% of the SCR).

The MCR at 31 December 2019 was also equal to 25% of the SCR (£9,718k = 25% x £38,870k). Therefore, the MCR has increased by £1,556k which is due to the £6,224k increase in the SCR.

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The Company does not use the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement.

E.4 Differences between the standard formula and any internal model used

The Company does not have an approved full or partial internal model.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

The Company continues to comply with the Minimum Capital Requirement and Solvency Capital Requirement.

E.6 Any other information

There is no other information with regard to the Company's capital management.



Appendix 1

Mitsui Sumitomo Insurance Company (Europe), Limited

Solvency and Financial Condition Report

Disclosures

31 December

2020

(Monetary amounts in GBP thousands)

General information

Undertaking name	Mitsui Sumitomo Insurance Company (Europe), Limited
Undertaking identification code	549300SL7DMSQCNFTC38
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2020
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
 S.05.01.02 - Premiums, claims and expenses by line of business
 S.05.02.01 - Premiums, claims and expenses by country
 S.17.01.02 - Non-Life Technical Provisions
 S.19.01.21 - Non-Life insurance claims
 S.23.01.01 - Own Funds
 S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
 S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02

Balance sheet

Solvency II value	
C0010	
	0
	127,916
	0
	0
	0
	9,976
	0
	9,976
	0
	0
	56,022
	61,918
	0
	0
	0
	188,810
	188,810
	188,710
	100
	0
	0
	7,009
	15,591
	0
	3,278
	342,604

Assets

R0030	Intangible assets
R0040	Deferred tax assets
R0050	Pension benefit surplus
R0060	Property, plant & equipment held for own use
R0070	Investments (other than assets held for index-linked and unit-linked contracts)
R0080	<i>Property (other than for own use)</i>
R0090	<i>Holdings in related undertakings, including participations</i>
R0100	<i>Equities</i>
R0110	<i>Equities - listed</i>
R0120	<i>Equities - unlisted</i>
R0130	<i>Bonds</i>
R0140	<i>Government Bonds</i>
R0150	<i>Corporate Bonds</i>
R0160	<i>Structured notes</i>
R0170	<i>Collateralised securities</i>
R0180	<i>Collective Investments Undertakings</i>
R0190	<i>Derivatives</i>
R0200	<i>Deposits other than cash equivalents</i>
R0210	<i>Other investments</i>
R0220	Assets held for index-linked and unit-linked contracts
R0230	Loans and mortgages
R0240	<i>Loans on policies</i>
R0250	<i>Loans and mortgages to individuals</i>
R0260	<i>Other loans and mortgages</i>
R0270	Reinsurance recoverables from:
R0280	<i>Non-life and health similar to non-life</i>
R0290	<i>Non-life excluding health</i>
R0300	<i>Health similar to non-life</i>
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>
R0320	<i>Health similar to life</i>
R0330	<i>Life excluding health and index-linked and unit-linked</i>
R0340	<i>Life index-linked and unit-linked</i>
R0350	Deposits to cedants
R0360	Insurance and intermediaries receivables
R0370	Reinsurance receivables
R0380	Receivables (trade, not insurance)
R0390	Own shares (held directly)
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in
R0410	Cash and cash equivalents
R0420	Any other assets, not elsewhere shown
R0500	Total assets

S.02.01.02

Balance sheet

		Solvency II value
		C0010
Liabilities		
R0510	Technical provisions - non-life	257,218
R0520	<i>Technical provisions - non-life (excluding health)</i>	256,928
R0530	<i>TP calculated as a whole</i>	0
R0540	<i>Best Estimate</i>	242,828
R0550	<i>Risk margin</i>	14,100
R0560	<i>Technical provisions - health (similar to non-life)</i>	290
R0570	<i>TP calculated as a whole</i>	0
R0580	<i>Best Estimate</i>	249
R0590	<i>Risk margin</i>	41
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	<i>Technical provisions - health (similar to life)</i>	0
R0620	<i>TP calculated as a whole</i>	
R0630	<i>Best Estimate</i>	
R0640	<i>Risk margin</i>	
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	0
R0660	<i>TP calculated as a whole</i>	
R0670	<i>Best Estimate</i>	
R0680	<i>Risk margin</i>	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	<i>TP calculated as a whole</i>	
R0710	<i>Best Estimate</i>	
R0720	<i>Risk margin</i>	
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	1,381
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	5,014
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in BOF</i>	
R0870	<i>Subordinated liabilities in BOF</i>	0
R0880	Any other liabilities, not elsewhere shown	4,024
R0900	Total liabilities	267,636
R1000	Excess of assets over liabilities	74,968

5.05.01.02

Premiums, claims and expenses by line of business

Non-life

Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written																
R0110	Gross - Direct Business	163				12,861	26,331	6,454	9,194		0					55,003
R0120	Gross - Proportional reinsurance accepted	0				12,148	43,600	1,442	0		-581					56,610
R0130	Gross - Non-proportional reinsurance accepted															0
R0140	Reinsurers' share	21				23,642	68,609	7,440	9,196		-553					108,356
R0200	Net	141				1,368	1,322	456	-2		-27					3,257
Premiums earned																
R0210	Gross - Direct Business	182				11,627	45,331	7,251	9,026		365					73,783
R0220	Gross - Proportional reinsurance accepted	0				11,682	10,893	1,014	-3,458		-581					19,551
R0230	Gross - Non-proportional reinsurance accepted															0
R0240	Reinsurers' share	29				21,935	54,976	7,860	5,571		-187					90,183
R0300	Net	153				1,375	1,249	405	-2		-28					3,152
Claims incurred																
R0310	Gross - Direct Business	211				6,174	25,173	19,083	7,462		0					58,103
R0320	Gross - Proportional reinsurance accepted	0				6,757	37,736	43	0		0					44,536
R0330	Gross - Non-proportional reinsurance accepted															0
R0340	Reinsurers' share	111				12,912	61,733	19,991	7,462		0					102,208
R0400	Net	100				19	1,176	-865	0		0					431
Changes in other technical provisions																
R0410	Gross - Direct Business															0
R0420	Gross - Proportional reinsurance accepted															0
R0430	Gross - Non-proportional reinsurance accepted															0
R0440	Reinsurers' share															0
R0500	Net	0				0	0	0	0		0					0
R0550	Expenses incurred	32				-1,272	1,704	-699	503		-23					246
R1200	Other expenses															324
R1300	Total expenses															570

S.05.02.01

Premiums, claims and expenses by country

Non-life

R0010

	C0010	C0020	C0030	C0040	C0050	C0060	C0070
Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country	
	US	DE	MX	KZ	ZA		
	C0080	C0090	C0100	C0110	C0120	C0130	C0140

Premiums written

R0110	Gross - Direct Business	26,275	13,165	1,706	0	0	0	41,146
R0120	Gross - Proportional reinsurance accepted	19,124	4,322	532	1,885	22,186	1,231	49,280
R0130	Gross - Non-proportional reinsurance accepted							0
R0140	Reinsurers' share	42,561	17,482	2,197	1,883	22,186	1,016	87,325
R0200	Net	2,838	5	41	2	0	215	3,101

Premiums earned

R0210	Gross - Direct Business	23,316	6,429	1,157		0		30,903
R0220	Gross - Proportional reinsurance accepted	14,444	2,091	361	808	19,244	1,305	38,252
R0230	Gross - Non-proportional reinsurance accepted							0
R0240	Reinsurers' share	35,206	8,517	1,490	806	19,244	1,074	66,338
R0300	Net	2,554	4	28	2	0	230	2,818

Claims incurred

R0310	Gross - Direct Business	35,214	1,407	96	0	0	0	36,717
R0320	Gross - Proportional reinsurance accepted	27,465	253	6	247	14,117	134	42,222
R0330	Gross - Non-proportional reinsurance accepted							0
R0340	Reinsurers' share	61,884	1,660	93	247	14,117	127	78,127
R0400	Net	795	0	10	0	0	7	812

Changes in other technical provisions

R0410	Gross - Direct Business							0
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share							0
R0500	Net	0	0	0	0	0	0	0

R0550	Expenses incurred	2,603	-507	-134	-33	-1,971	158	117
R1200	Other expenses							324
R1300	Total expenses							441

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance											Accepted non-proportional reinsurance				Total Non-Life obligation	
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance		Non-proportional property reinsurance
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	Technical provisions calculated as a whole	0					0	0	0	0			0					0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																	0
Technical provisions calculated as a sum of BE and RM Best estimate																		
Premium provisions																		
R0060	Gross	-12					7,681	-5,630	4,571	7,712			-163					14,158
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	-6					7,149	-6,069	4,454	7,477			-152					12,853
R0150	Net Best Estimate of Premium Provisions	-6					532	439	117	235			-11					1,305
Claims provisions																		
R0160	Gross	261					32,008	91,843	98,066	6,126			615					228,919
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	107					21,244	74,124	80,207	-127			403					175,958
R0250	Net Best Estimate of Claims Provisions	154					10,764	17,719	17,859	6,254			212					52,961
R0260	Total best estimate - gross	249					39,689	86,213	102,637	13,838			451					243,077
R0270	Total best estimate - net	148					11,296	18,157	17,976	6,488			201					54,267
R0280	Risk margin	41					2,874	4,731	4,768	1,670			56					14,141
Amount of the transitional on Technical Provisions																		
R0290	Technical Provisions calculated as a whole																	0
R0300	Best estimate																	0
R0310	Risk margin																	0
R0320	Technical provisions - total	290					42,563	90,944	107,405	15,508			508					257,218
R0330	Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	100					28,393	68,055	84,661	7,350			251					188,810
R0340	Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	189					14,170	22,888	22,745	8,158			257					68,408

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020 Accident year / underwriting year Underwriting Year

Gross Claims Paid (non-cumulative)													
(absolute amount)													
	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
Year	Development year											In Current year	Sum of years (cumulative)
	0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior										170	170	170
R0160	2011	4,329	16,630	10,116	1,658	-3,991	825	1,341	212	23,845	58	58	55,022
R0170	2012	1,000	10,462	4,017	2,434	1,172	603	517	144	-50		-50	20,299
R0180	2013	4,678	4,779	2,398	8,945	29,467	903	78	599			599	51,847
R0190	2014	2,143	6,643	3,876	1,883	1,076	-161	294				294	15,756
R0200	2015	2,392	5,097	5,074	2,203	843	1,236					1,236	16,846
R0210	2016	1,397	10,967	4,643	2,507	1,525						1,525	21,039
R0220	2017	1,345	11,700	7,181	2,061							2,061	22,287
R0230	2018	3,506	11,120	5,951								5,951	20,578
R0240	2019	2,329	5,919									5,919	8,248
R0250	2020	1,326										1,326	1,326
R0260												Total	19,088
													233,416

Gross Undiscounted Best Estimate Claims Provisions													
(absolute amount)													
	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360	
Year	Development year											Year end (discounted data)	
	0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior										49,571	49,571	
R0160	2011	0	0	0	0	14,669	13,324	12,536	3,908	18,151		18,302	
R0170	2012	0	0	0	3,834	2,756	2,191	1,739	1,178			1,163	
R0180	2013	0	0	39,500	6,823	5,569	4,309	3,851				3,823	
R0190	2014	0	0	14,025	10,545	5,403	4,035	2,160				2,143	
R0200	2015	0	19,068	10,772	7,497	8,844	6,736					6,708	
R0210	2016	16,333	18,381	12,105	9,218	5,522						5,507	
R0220	2017	19,263	24,602	17,475	11,013							10,980	
R0230	2018	25,405	32,559	19,267								19,247	
R0240	2019	18,748	55,981									56,086	
R0250	2020	55,591										55,605	
R0260												Total	228,919

S.23.01.01

Own Funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35

R0010	Ordinary share capital (gross of own shares)
R0030	Share premium account related to ordinary share capital
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings
R0050	Subordinated mutual member accounts
R0070	Surplus funds
R0090	Preference shares
R0110	Share premium account related to preference shares
R0130	Reconciliation reserve
R0140	Subordinated liabilities
R0160	An amount equal to the value of net deferred tax assets
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds
R0230	Deductions for participations in financial and credit institutions
R0290	Total basic own funds after deductions

Ancillary own funds

R0300	Unpaid and uncalled ordinary share capital callable on demand
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand
R0320	Unpaid and uncalled preference shares callable on demand
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0390	Other ancillary own funds
R0400	Total ancillary own funds

Available and eligible own funds

R0500	Total available own funds to meet the SCR
R0510	Total available own funds to meet the MCR
R0540	Total eligible own funds to meet the SCR
R0550	Total eligible own funds to meet the MCR

R0580 SCR

R0600 MCR

R0620 Ratio of Eligible own funds to SCR

R0640 Ratio of Eligible own funds to MCR

Reconciliation reserve

R0700	Excess of assets over liabilities
R0710	Own shares (held directly and indirectly)
R0720	Foreseeable dividends, distributions and charges
R0730	Other basic own fund items
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
R0760	Reconciliation reserve

Expected profits

R0770	Expected profits included in future premiums (EPIFP) - Life business
R0780	Expected profits included in future premiums (EPIFP) - Non- life business
R0790	Total Expected profits included in future premiums (EPIFP)

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
80,700	80,700		0	
0	0		0	
0	0		0	
0		0	0	0
0	0			
0		0	0	0
0		0	0	0
-5,732	-5,732			
0		0	0	0
0				0
0	0	0	0	0
0				

0				
0				
0				
0				
0				
0				
0				
0				
0				
0			0	0

74,968	74,968	0	0	0
74,968	74,968	0	0	
74,968	74,968	0	0	0
74,968	74,968	0	0	

45,094
11,274
166.25%
664.99%

C0060
74,968
0
80,700
0
-5,732

1,809
1,809

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

R0010 Market risk
 R0020 Counterparty default risk
 R0030 Life underwriting risk
 R0040 Health underwriting risk
 R0050 Non-life underwriting risk
 R0060 Diversification

R0070 Intangible asset risk

R0100 Basic Solvency Capital Requirement

Calculation of Solvency Capital Requirement

R0130 Operational risk
 R0140 Loss-absorbing capacity of technical provisions
 R0150 Loss-absorbing capacity of deferred taxes
 R0160 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC
 R0200 Solvency Capital Requirement excluding capital add-on
 R0210 Capital add-ons already set
 R0220 Solvency capital requirement

Other information on SCR

R0400 Capital requirement for duration-based equity risk sub-module
 R0410 Total amount of Notional Solvency Capital Requirements for remaining part
 R0420 Total amount of Notional Solvency Capital Requirements for ring fenced funds
 R0430 Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios
 R0440 Diversification effects due to RFF nSCR aggregation for article 304

Approach to tax rate

R0590 Approach based on average tax rate

Calculation of loss absorbing capacity of deferred taxes

R0640 LAC DT
 R0650 LAC DT justified by reversion of deferred tax liabilities
 R0660 LAC DT justified by reference to probable future taxable economic profit
 R0670 LAC DT justified by carry back, current year
 R0680 LAC DT justified by carry back, future years
 R0690 Maximum LAC DT

Gross solvency capital requirement	USP	Simplifications
C0110	C0090	C0120
3,606		
27,510		
0		
43		
14,043		
-7,401		
0		
37,802		
C0100		
7,292		
0		
0		
45,094		
0		
45,094		
0		
0		
0		
0		
0		
C0109		
0		
LAC DT		
C0130		
0		
0		
0		
0		
0		

USP Key

For life underwriting risk:

1 - Increase in the amount of annuity benefits
 9 - None

For health underwriting risk:

1 - Increase in the amount of annuity benefits
 2 - Standard deviation for NSLT health premium risk
 3 - Standard deviation for NSLT health gross premium risk
 4 - Adjustment factor for non-proportional reinsurance
 5 - Standard deviation for NSLT health reserve risk
 9 - None

For non-life underwriting risk:

4 - Adjustment factor for non-proportional reinsurance
 6 - Standard deviation for non-life premium risk
 7 - Standard deviation for non-life gross premium risk
 8 - Standard deviation for non-life reserve risk
 9 - None

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

R0010 MCR_{NL} Result

C0010

6,265

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
C0020	C0030
148	141
0	
0	
0	
0	
11,296	1,343
18,157	1,286
17,976	456
6,488	-2
0	
0	
201	2
0	
0	
0	
0	

R0020	Medical expense insurance and proportional reinsurance
R0030	Income protection insurance and proportional reinsurance
R0040	Workers' compensation insurance and proportional reinsurance
R0050	Motor vehicle liability insurance and proportional reinsurance
R0060	Other motor insurance and proportional reinsurance
R0070	Marine, aviation and transport insurance and proportional reinsurance
R0080	Fire and other damage to property insurance and proportional reinsurance
R0090	General liability insurance and proportional reinsurance
R0100	Credit and suretyship insurance and proportional reinsurance
R0110	Legal expenses insurance and proportional reinsurance
R0120	Assistance and proportional reinsurance
R0130	Miscellaneous financial loss insurance and proportional reinsurance
R0140	Non-proportional health reinsurance
R0150	Non-proportional casualty reinsurance
R0160	Non-proportional marine, aviation and transport reinsurance
R0170	Non-proportional property reinsurance

Linear formula component for life insurance and reinsurance obligations

R0200 MCR_L Result

C0040

0

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
C0050	C0060

R0210	Obligations with profit participation - guaranteed benefits
R0220	Obligations with profit participation - future discretionary benefits
R0230	Index-linked and unit-linked insurance obligations
R0240	Other life (re)insurance and health (re)insurance obligations
R0250	Total capital at risk for all life (re)insurance obligations

Overall MCR calculation

C0070

R0300	Linear MCR
R0310	SCR
R0320	MCR cap
R0330	MCR floor
R0340	Combined MCR
R0350	Absolute floor of the MCR
R0400	Minimum Capital Requirement

6,265
45,094
20,292
11,274
11,274
2,255
11,274



Appendix 2

